

Appendix 13

In this appendix underlining indicates proposed new text and striking through indicates deleted text.



The DFSA Rulebook

Prudential – Insurance Business Module

(PIN)

2 MANAGEMENT AND CONTROL OF RISK

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2.5 Insurers that undertake surety insurance business

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- 2.5.5** (1) An Insurer intending to undertake Insurance Business in Class 7(b) must:
- (a) notify the DFSA in writing of its proposal to undertake such business; and
 - (b) give to the DFSA a business plan for the business intended to be undertaken.
- (2) The DFSA may object to a proposal an Insurer has made under (1).
- (3) The procedures in Schedule 3 to the Regulatory Law 2004 apply to a decision of the DFSA under (2).
- (4) If the DFSA decides to exercise its power under (2), the Insurer may refer the matter to the FMT for review.
- ~~(5)~~(2) An Insurer must not effect any contract of insurance in Class 7(b) if the DFSA has objected to a proposal it has made under (1).

Guidance

1. If all the information required is provided to the DFSA relating to the proposal to effect Contracts of Insurance in Class 7(b), generally, it will take about 45 ~~calendar~~ days for the DFSA to be able to determine whether an Insurer should be allowed to conduct this type of business. ~~If the DFSA decides to object to the proposal, it will notify the Insurer of its decision and the reasons for that decision before imposing a restriction to that effect on the Insurer's licence. An Insurer may make commence a reference to the FMT an appeal to the DFSA's Regulatory Appeals Committee relating in relation~~ to such a decision.
2. The current requirements relating to Class 7(b) do not cater to monoline specialist financial guarantee insurers. However, if such an Insurer wishes to operate in the DIFC, the DFSA will consider what requirements should apply to it. In doing so, the DFSA will consider capital adequacy and other requirements that are generally applied to such specialist Insurers in other jurisdictions.

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3 LONG-TERM INSURANCE BUSINESS

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3.6 Other requirements

- 3.6.1** (1) Except as permitted in this Rule, a DIFC Incorporated Insurer must not effect any Direct Long-Term Insurance contract the terms of which include any of the following:
- (a) investment components of Policy Benefits, that are wholly or partly guaranteed;
 - (b) options to receive Policy Benefits on expiry, maturity or surrender as annuities, where annuity rates are wholly or partly guaranteed at the inception of the contract;
 - (c) bonuses on participating contracts where those bonuses become vested Policy Benefits or guaranteed by the Insurer at a date prior to expiry, maturity or surrender; or
 - (d) other options or discretionary Policy Benefits that expose the Insurer to investment, expense or other risk that is not readily definable at the inception of the contract.
- (2) An Insurer may request the permission of the DFSA to effect Direct Long-Term Insurance contracts with features of the kind referred to in (1). A request must be made in writing and must include:
- (a) details of the terms of the proposed contracts;
 - (b) an explanation of how the Insurer intends to price such contracts, and to value them for the purposes of its capital adequacy calculations; and
 - (c) an explanation of how the Insurer intends to quantify, monitor and manage the risks to its capital adequacy represented by such features of contracts.
- (3) The DFSA may give an Insurer permission to effect Direct Long-Term Insurance contracts having one or more features of the kind referred to in (1). Permission shall be given in writing and shall be subject to such terms or conditions as the DFSA may specify in its notice giving permission. Where any terms and conditions are imposed on the Insurer, the Insurer shall comply with such terms and conditions.

- (4) The DFSA may on its own initiative at any time vary or revoke permission given under (3) above. Variation or revocation shall be communicated to the Insurer in writing.
- (5) The procedures in Schedule 3 to the Regulatory Law 2004 apply to a decision of the DFSA under this Rule not to give permission or to impose conditions or restrictions or to vary or revoke permission.
- (6) If the DFSA decides to exercise its power under this Rule not to give permission or to impose conditions or restrictions or to vary or revoke permission, the Insurer may refer the matter to the FMT for review.

Guidance

1. The features described in Rule 3.6.1(1) have the potential to expose an Insurer to risks that are not adequately provided for in the capital adequacy framework set out in this Rulebook. The DFSA retains the power to prohibit or limit the inclusion of such features in a Long-Term Insurance contract where it is of the view that the inclusion of such features may have a materially adverse impact upon the long term viability of the Insurer. It is natural for Insurers to seek to stimulate a market by offering features such as guarantees or options. However, the solvency of Insurers could be threatened if they have not adequately valued, stress-tested and set aside adequate capital to service such features. Therefore, the DFSA will expect Insurers seeking permission to write contracts with such features to demonstrate that these steps have been undertaken, and that their procedures provide adequately for ongoing monitoring of the associated risks. Permission to undertake such business may be subject to conditions, for example, a requirement to maintain additional capital, or to restrict business of this nature by reference to total business. The DFSA may also as a condition of granting permission require additional information relating to the business in question to be reported to the DFSA in the Insurer's periodic regulatory returns, or in the Actuary's report referred to in Rule 7.3.4.
2. If all the information required is provided to the DFSA relating to a request for permission under Rule 3.6.2, generally, it will take about 45 calendar days for the DFSA to be able to determine whether an Insurer should be permitted to effect Direct Long-Term Insurance contracts with features of the kind referred to in that Rule. ~~If the DFSA decides to object to the proposal, grant conditional permission or vary or revoke a permission already granted, it will notify the Insurer of its decision and the reasons for that decision. An Insurer may make an appeal to the DFSA's Regulatory Appeals Committee relating to such a decision.~~

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