MODIFICATION NOTICE

To	**Takaful Re Limited**
Address	Level 41, Emirates Towers Offices, PO Box 211181, Dubai - UAE
DFSA Firm Reference No.	**F000067**
Notice No.	**W 38/05**

THE DFSA HEREBY GIVES NOTICE THAT:

The Rules specified in the table herein do not apply to the above mentioned Person in the form appearing in the Rulebook but instead apply to that Person in the modified form prescribed in that table.

This notice is issued by the DFSA under Article 25 of the Regulatory Law 2004.

Effective date: This notice comes into effect on 1 December 2005 and expires on 1 December 2007, or the date on which any Rule specified herein is amended, which ever is the earlier.

RULES MODIFIED

The Rules listed in the left hand column of the table below are modified as shown in the right hand column of the table. In this table, underlining indicates new text and striking through indicates deleted text.

The versions of Rules to which this notice relates are COB/VER1/261/09-04, PIN/VER2/228/10-04, PFN/VER3/02-05 and GLO/VER4/08-05

Rule	Modified Text
COB 2.2.2	<u>(1)</u> … <u>(4)</u> An Insurer must ensure that it does not carry on, in or from the DIFC, both Long-Term Insurance Business and General Insurance Business unless <u>it establishes one or more Long-Term Insurance Funds and one or more General Insurance Funds in accordance with the provisions of PIN Chapter 3 (as</u>

	modified)~~ the General Insurance Business is restricted to Class 1 or Class 2 or both~~.
PIN Chapter 3	[To be replaced in its entirety by the text attached as Annex 1]
PIN 4.6	[To be replaced in its entirety by the text attached as Annex 2
PIN 7.2.3	Every 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. Where an Insurer maintains one or more General Insurance Funds, a separate report must be provided in respect of each fund.
PIN App 10 and PIN App 11	[New appendices to be added as in Annex 3 attached.]
PFN 6.2.5	~~Except as provided otherwise in this Rule, a~~An Insurer that maintains an ~~Long-Term~~ Insurance Fund must complete a Fund Return in respect of each ~~Long-Term~~ Insurance Fund that it maintains. A Fund Return includes all of the assets, liabilities, revenues and expenses attributable to the Fund, regardless of the residency status or location of the customer or of any asset or liability. ~~An Insurer to which this Rule applies is not required to complete a Fund Return in the following cases:~~ ~~(a) where the Insurer is deemed to constitute a single, Long-Term Insurance Fund, such that the information contained in the Fund Return would be identical to that in the Global Return; and~~ ~~(b) where a Cell of the Insurer is deemed to constitute a single, Long-Term Insurance Fund, such that the information contained in the Fund Return would be identical to that in the Cell Return.~~
PFN 6.2 Guidance PFN 6.4.5 (c)(ii) PFN 6.4.6 (g) PFN 6.4.8 (and associated	[The words “Long-Term Insurance Fund” are to be replaced by “Insurance Fund” wherever they occur.]

Guidance) PFN 6.5.25 PFN 6.6 Guidance 2 Form PIN1, line 39.3	
GLO	[The following definitions are to be added.] General Insurance Fund A fund in respect of General Insurance Business established and maintained in accordance with PIN 3 (as modified). Insurance Fund A General Insurance Fund or a Long-Term Insurance Fund.

CONDITIONS

None

INTERPRETATION

The provisions in this notice are to be construed in accordance with GEN section 6.2 as if these provisions are provisions of the Rulebook.

Defined terms are identified in this notice by the capitalisation of the initial letter of a word or of each word in a phrase and are defined in the Glossary (GLO). Unless the context otherwise requires, where capitalisation of the initial letter is not used, an expression has its natural meaning.

This notice was issued by:

Name: David Knott

Position: Chief Executive

Date: 1 December 2005

3 INSURANCE FUNDS

3.1 Introduction

3.1.1 This chapter applies to all Insurers.

Guidance

1. This chapter sets out requirements in respect of the establishment of Insurance Funds.

3.2 Establishment of insurance funds

3.2.1 An Insurer that is required, under the provisions of section 3.3, to establish or maintain an Insurance Fund in respect of a part of its business must identify separately in its books and records the assets, liabilities, revenues and expenses attributable to that business. Those assets, liabilities, revenues and expenses must be recorded separately and accounted for as an Insurance Fund.

3.3 Attribution of contracts to a fund

3.3.1 All contracts of Long-Term Insurance effected by a DIFC Incorporated Insurer must be attributed to a Long-Term Insurance Fund.

3.3.2 Except as allowed in Rule 3.3.3, all contracts of General Insurance effected by a DIFC Incorporated Insurer must be attributed to a General Insurance Fund.

3.3.3 An Insurer may attribute insurance contracts in General Insurance Class 1 or Class 2 to a Long-Term Insurance Fund.

3.4 Segregation of assets and liabilities

3.4.1 All assets, liabilities, revenues and expenses in respect of a Contract of Insurance that is attributed to an Insurance Fund must be recorded as assets, liabilities, revenues and expenses of that Insurance Fund.

3.4.2 An Insurer may at any time attribute any of its assets to an Insurance Fund that were not previously attributed to an Insurance Fund.

Guidance

A transaction described in Rule 3.4.2 is sometimes described as a transfer of capital into the Insurance Fund.

3.4.3 All revenues and expenses arising by way of earnings, revaluation or other change to the assets and liabilities of an Insurance Fund must be recorded as revenues and expenses, or movements in capital, of that Insurance Fund.

3.4.4 An Insurer which is required to maintain an Insurance Fund must maintain adequate accounting and other records to identify the contracts and the assets, liabilities, revenues and expenses attributable to the Insurance Fund.

3.5 Limitation on use of assets in insurance fund

3.5.1 Except as provided in this section, assets that are attributable to an Insurance Fund must be applied only for the purposes of the business attributed to the Insurance Fund.

3.5.2 Assets attributable to an Insurance Fund may not be transferred so as to be available for other purposes of the Insurer except:

(a) where the transfer constitutes appropriation of a surplus determined in accordance with section 7.3, provided that the transfer is performed within four months of the Reference Date of the actuarial investigation referred to in that Rule;

(b) where the transfer constitutes a payment of dividend or return of capital, in accordance with Rule 3.5.4;

(c) where the transfer is made in exchange for other assets at fair value;

(d) where the transfer constitutes reimbursement of expenditure borne on behalf of the Insurance Fund, and in respect of expenses attributable to the Insurance Fund; or

(e) where the transfer constitutes reattribution of assets attributed to the Insurance Fund in error.

(f) where the transfer constitutes payments under the terms of the Wakala or Mudaraba agreements between Takaful contributors and the shareholders.

3.5.3 Assets attributable to an Insurance Fund must not be distributed by way of dividend or by way of return of capital.

3.5.4 Assets attributable to an Insurance Fund must not be lent or otherwise made available for use for any other purposes of the Insurer or any purposes of any party Related to the Insurer.

3.5.5 An Insurer may not enter into any arrangement, whether or not described as a contract of reinsurance, whereby an Insurance Fund of the Insurer stands in the same relation to the Insurer as though the Insurer were the reinsurer in a contract of reinsurance in which the Insurance Fund is the cedant.

Guidance

Rule 3.5.5 operates to prohibit reinsurance between Insurance Funds of the same Insurer, as well as arrangements of the nature of internal contracts of reinsurance where the cession transaction is attributed to an Insurance Fund but the corresponding reinsurance acceptance transaction is not.

4.6 Insurers that have established an insurance fund

4.6.1 This section applies only to Insurers that undertake Insurance Business through Insurance Funds.

4.6.2 An Insurer that undertakes Insurance Business through a Insurance Fund must ensure that at all times, in respect of each Insurance Fund maintained by it, the Insurer has Adjusted Fund Capital Resources equal to or higher than the amount of the Minimum Fund Capital Requirement in respect of that Insurance Fund.

4.6.3 The Adjusted Fund Capital Resources in respect of a Long-Term Insurance Fund maintained by an Insurer must be calculated in accordance with App7.

4.6.4 The Minimum Fund Capital Requirement in respect of a Long-Term Insurance Fund maintained by an Insurer must be calculated in accordance with App8.

4.6.5 The Adjusted Fund Capital Resources in respect of a General Insurance Fund maintained by an insurer must be calculated in accordance with App10.

4.6.6 The Minimum Fund Capital Requirement in respect of a General Insurance Fund maintained by an Insurer must be calculated in accordance with App11.

App10 CALCULATION OF ADJUSTED FUND CAPITAL RESOURCES

A10.1 Purpose and general provisions

A10.1.1 This appendix applies to all Insurers to which section 4.6 applies.

Guidance

1. This appendix sets out the manner in which an Insurer is required to calculate the Adjusted Fund Capital Resources in respect of each General Insurance Fund it maintains. The calculation is analogous to that applicable to Insurers other than Protected Cell Companies, so that (except where changes are necessary to reflect structural differences) the capital of a General Insurance Fund is determined as though it was an Insurer subject to App3.

2. The Adjusted Fund Capital Resources are calculated by making adjustments to the equity of the fund, as at the Solvency Reference Date.

A10.2 Adjusted fund capital resources

A10.2.1 An Insurer must calculate the Adjusted Fund Capital Resources in respect of each General Insurance Fund maintained by it, according to the formula:

AFCR = AFE – FHCA

where:

AFCR means the Adjusted Fund Capital Resources in respect of the fund;
AFE means the adjusted fund equity in respect of that fund; and
FHCA means the fund hybrid capital adjustment in respect of that fund.

A10.2.2 Adjusted fund equity is calculated as set out in section A10.4. The fund hybrid capital adjustment is set out in section A10.5.

A10.3 Base fund capital

A10.3.1 The commencement point for calculating the adjusted fund equity in respect of a General Insurance Fund maintained by an Insurer is the base fund capital.

A10.3.2 Subject to Rules A10.3.3, A10.3.4 and A10.3.5, the base fund capital in respect of a General Insurance Fund must consist of the following capital instruments and equity reserves of the Insurer, that are classified as capital instruments and equity reserves of the fund:

(a) general reserves;

(b) retained earnings;

(c) amounts attributed to the General Insurance Fund by the Insurer in accordance with Rule 3.4.2;

(d) in the case of a Takaful Insurer, amounts provided from the Owners' Equity by loan to the General Insurance Fund and not repaid as at the Solvency Reference Date;

(e) current year's earnings after tax; and

(f) hybrid capital (as defined in Rule A10.5.1).

A10.3.3 Where an Insurer is not a DIFC Incorporated Insurer, base capital may include capital instruments and equity reserves that are approved in writing by the DFSA as equivalent to the capital instruments and equity reserves described in Rule A10.3.2.

A10.3.4 Owners' Equity in a Takaful Insurer, that has not been transferred to the General Insurance Fund, must be classified as hybrid capital for the purposes of this section if:

(a) under the constitutional documents of the Insurer or the terms of insurance contracts or both, the owners do not participate in the surpluses and losses of Insurance Business; and

(b) the Owners' Equity is available for loan to the General Insurance Fund

A10.3.5 Hybrid capital having a term to maturity of less than five years may only be included in base fund capital with the written consent of the DFSA.

A10.4 Adjusted fund equity

A10.4.1 An Insurer must calculate its adjusted fund equity in respect of each General Insurance Fund as set out in this section.

Guidance

The purpose of these adjustments is to provide a consistent basis for the determination of the Insurer's Adjusted Fund Capital Resources and to exclude from those resources assets that may not be readily realisable for the purposes of meeting Insurance Liabilities of the General Insurance Fund.

A10.4.2 The following items must be deducted from base fund capital, to the extent that the Insurer has not excluded them in determining its base fund capital:

(a) any amounts in respect of appropriations to be made from the General Insurance Fund in respect of the current year, including dividends, distributions by Takaful Insurers of surplus, bonuses, pensions and welfare charges that are determined on the basis of the current year's profit, whether or not the amounts have been approved by the Insurer for payment;

(b) the amount of any investment by the General Insurance Fund or by a Subsidiary of the General Insurance Fund, in the Insurer's own capital;

(c) the amount of any tax liability that would be attributable to unrealised gains on investments, if those gains were realised;

(d) the amount of deferred acquisition costs;

(e) the amount of any deferred tax asset;

(f) the amount of any goodwill, patents, service rights, brands and any other intangible items;

(g) the amount of any Zakah or charity fund of a Takaful Insurer, maintained within the General Insurance Fund;

(h) the amount of any operating assets, including inventories, plant and equipment, and vehicles; and

(i) the amount of any assets that may not be applied to meet Insurance Liabilities attributable to the General Insurance Fund (for example, assets that are subject to fixed or floating charges, mortgages or other security).

A10.5 Fund hybrid capital adjustment

Guidance

1. This section acts to limit hybrid capital to 15% of the adjusted fund equity in respect of a fund.

2. The purpose of the fund hybrid capital adjustment is to limit the extent to which an Insurer may rely for its Adjusted Fund Capital Resources in respect of any General Insurance Fund on instruments that do not or may not constitute permanent capital of that fund.

A10.5.1 Fund hybrid capital includes the following items:

(a) subordinated debt attributable to the fund; and

(b) Owners' Equity in a Takaful Insurer of the type described in Rule A10.3.4.

A10.5.2 Subject to Rule A10.5.3, an Insurer must calculate its fund hybrid capital adjustment as the amount by which the total amount of hybrid capital exceeds 15% of adjusted fund equity.

A10.5.3 The DFSA may at its discretion permit an Insurer to apply Rule A10.5.2 as though the figure of 15% was replaced with a higher figure approved in writing by the DFSA. The approved figure may not be more than the actual percentage which the fund hybrid capital represents of adjusted fund equity, and may not in any case exceed 30%.

App11 CALCULATION OF MINIMUM FUND CAPITAL REQUIREMENT

A11.1 Purpose and general provisions

A11.1.1 This appendix applies to all Insurers to which section 4.6 applies.

Guidance

1. This appendix sets out the manner in which an Insurer that conducts General Insurance Business through a General Insurance Fund is required to calculate the Minimum Fund Capital Requirement in respect of each General Insurance Fund.

2. The Minimum Fund Capital Requirement is calculated on a basis that is analogous to the basis of calculation of the Minimum Capital Requirement for Insurers other than Protected Cell Companies, as set out in App4.

3. The effect therefore is as though each General Insurance Fund maintained by an Insurer were itself an Insurer that had to calculate a Minimum Capital Requirement in accordance with App4. Consequently, this appendix incorporates references to the provisions of App4.

A11.2 Minimum fund capital requirement

A11.2.1 Subject to Rule A11.2.3, an Insurer must calculate the Minimum Fund Capital Requirement in respect of each General Insurance Fund maintained by it, according to the formula:

MFCR = DRC + IVRC + OARC + OLRC + CRC + SFAC + URC + RRC + AMRC

where:

Term	Definition
MFCR	Minimum Fund Capital Requirement in respect of the fund;
DRC	Default risk component in respect of that fund;
IVRC	Investment volatility risk component in respect of the fund;
OARC	Off-balance sheet asset risk component in respect of the fund;
OLRC	Off-balance sheet liability risk component in respect of the fund;
CRC	Concentration risk component in respect of the fund;
SFAC	Size Factor Adjustment Component in respect of the fund;
URC	Underwriting risk component in respect of the fund;
RRC	Reserving risk component in respect of the fund;
AMRC	Asset management risk component in respect of the fund.

A11.2.2 The methods of calculation of the components referred to in Rule A11.2.1 are set out in sections A11.4, A11.5, A11.6, A11.7, A11.8, A11.9, A11.10, A11.11, and A11.12.

A11.2.3 The Minimum Fund Capital Requirement in respect of a General Insurance Fund must always be equal to or higher than $10,000,000.

A11.3 Applicability of components to assets of the fund

A11.3.1 Subject to Rule A11.3.2, an Insurer must calculate those components of the Minimum Fund Capital Requirement in respect of a General Insurance Fund, that are relevant to assets, in respect of every asset that is attributable to the General Insurance Fund.

A11.3.2 Where an Insurer arranges its affairs such that Invested Assets attributable to a General Insurance Fund are held in a Related entity, the Insurer may, with the written approval of the DFSA, calculate components of the Minimum Fund Capital Requirement by reference to the interest of the General Insurance Fund in the assets that are held by the Related entity, instead of by reference to the interest that the General Insurance Fund has in that Related entity. In that case this appendix shall be interpreted as though the assets (representing the General Insurance Fund's interest) held by the Related entity were held directly by the General Insurance Fund.

Guidance

The effect of Rule A11.3.2 is to provide flexibility for Insurers whose investments are managed on a pooled basis within a Group, or which establish specialist Subsidiaries to manage their investments. While the Insurer's asset in such cases is a balance with, or investment in, a Related entity, this Rule permits the Insurer to 'look through' the corporate arrangement and apply this appendix to the assets of the Related entity as though they were the Insurer's own. This flexibility extends to Invested Assets attributable to General Insurance Funds, though this provision does not provide any exemption from section 3.4 in respect of segregation of assets.

A11.4 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, as it applies to Insurers that are not Protected Cell Companies, is set out in section A4.4. The provisions in this section apply the relevant provisions of section A4.4 to each General Insurance Fund that an Insurer maintains.

A11.4.1 An Insurer must calculate the default risk component in respect of a General Insurance Fund as the sum of the amounts obtained by multiplying the value of each asset attributed to the fund with the relevant percentage, in accordance with the following tables and subject to the provisions of Rules A11.4.2 and A11.4.3:

(a) assets that are Invested Assets: the table set out in Rule A4.4.1(a); and

(b) assets that are not Invested Assets: the table set out in Rule A4.4.1(b).

A11.4.2 The provisions of Rules A4.4.2, A4.4.3, A.4.4.4, A4.4.5 and A4.4.6 must be applied, mutatis mutandis, to assets attributed to a General Insurance Fund as though references in those Rules to an Insurer were instead references to a General Insurance Fund.

A11.4.3 Notwithstanding anything else in this section:

(a) the default risk component in respect of any asset that is subject to a fixed or floating charge, mortgage or other encumbrance must be 100% of the value of the asset to the extent of that charge, mortgage or encumbrance. In the case of such assets, the percentages set out in the tables referred to above must be applied only to the amount, if any, by which the value of the asset exceeds the amount of the charge, mortgage or encumbrance; and

(b) no default risk component must be calculated in respect of assets excluded from Adjusted Fund Capital Resources in accordance with Rules A10.4.2(d), A10.4.2(e), A10.4.2(f), A10.4.2(h), or A10.4.2(i).

A11.5 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. The basic calculation model for this component, as it applies to Insurers that are not Protected Cell Companies, is set out in section A4.5. The provisions in this section apply the relevant provisions of section A4.5 to each General Insurance Fund that an Insurer maintains.

A11.5.1 An Insurer must calculate the investment volatility risk component in respect of a General Insurance Fund as the sum of the amounts obtained by multiplying the value of each Invested Asset attributable to the fund with the relevant percentage, in accordance with the table set out in Rule A4.5.1, but subject to the provisions of Rule A4.5.2.

A11.6 Off-balance sheet asset risk component

Guidance

The purpose of the off-balance sheet asset risk component is to require an Insurer to set aside capital to cover the risk of default and deterioration in value in respect of exposures that the Insurer has because it is a party to a derivative contract. The provisions in this section apply the relevant provisions of section A4.6 to each General Insurance Fund that an Insurer maintains.

A11.6.1 An Insurer is required to calculate an off-balance sheet asset risk component in respect of a General Insurance Fund, if the Insurer is, as at the Solvency Reference Date, a party to a derivative contract attributable to that fund, including a forward, future, swap, option or other similar contract, but not including:

(a) a put option serving as a guarantee;

(b) a foreign exchange contract having an original maturity of 14 days or less; or

(c) an instrument traded on a futures or options exchange, which is subject to daily mark-to-market and margin payments.

A11.6.2 An Insurer must calculate the off-balance sheet asset risk component in respect of a General Insurance Fund as the sum of the amounts obtained by applying the calculations set out in Rule A11.6.3 in respect of each derivative contract entered into by the Insurer and attributable to that fund, that meets the description in Rule A11.6.1.

A11.6.3 The amount in respect of a derivative contract is obtained by calculating, for an asset equivalent amount as determined in Rule A11.6.4, a default risk component as set out in section A11.4 and an investment volatility risk component as set out in section A11.5, as though the asset equivalent amount were a debt obligation due from the derivative counterparty.

A11.6.4 The asset equivalent amount in respect of a derivative is calculated as the sum of the current mark-to-market exposure of the derivative (where this is positive) and the amount obtained by multiplying the notional principal amount of the derivative by the factors specified in the table set out in Rule A4.6.4 according to the nature and residual maturity of the derivative.

A11.7 Off-balance sheet liability risk component

Guidance

The purpose of the off-balance sheet liability risk component is to require an Insurer to set aside capital to cover the risk that it will be required to perform on a guarantee, letter of credit or other credit substitute that it has entered into. Although such items are not liabilities of the Insurer as at the Solvency Reference Date, they have the capacity to crystallise as liabilities at a subsequent date and therefore to affect the Insurer's capital position. The provisions in this section apply the relevant provisions of section A4.7 to each General Insurance Fund that an Insurer maintains.

A11.7.1 An Insurer must calculate an off-balance sheet liability risk component in respect of a General Insurance Fund if the Insurer has issued guarantees, including put options serving as guarantees, letters of credit or any other credit substitute in favour of another party, so that the General Insurance Fund is exposed to the risk of having to make payment on those instruments should the guaranteed party default.

A11.7.2 An Insurer must calculate its off-balance sheet risk component as the sum of the amounts obtained by applying the calculations set out in Rule A11.7.3 in respect of each guarantee, letter of credit or other credit substitute.

A11.7.3 The amount in respect of a guarantee, letter of credit or other credit substitute is obtained by calculating, for the nominal amount of the guarantee, letter of credit or other credit substitute, a default risk component as set out in section A8.4 and an investment volatility risk component as set out in section A8.5 in respect of the obligation or asset over which the guarantee, letter of credit or other credit substitute is written, as though that obligation or asset were an obligation or asset of the Insurer.

A11.8 Concentration risk component

Guidance

The purpose of the concentration risk component is to require an Insurer to set aside capital to cover the sensitivity that it has to default or volatility in respect of assets and exposures to single counterparties or groupings of connected counterparties, or single properties. The provisions in this section apply the relevant provisions of section A4.8 to each General Insurance Fund that an Insurer maintains.

A11.8.1 An Insurer is required to calculate a concentration risk component in respect of a General Insurance Fund if that fund has, as at the Solvency Reference Date, an investment exposure to a single counterparty or group of Related counterparties, or to a single property, that exceeds 10% of the Adjusted Fund Capital Resources.

A11.8.2 For the purposes of the calculation referred to in Rule A11.8.1:

(a) 'investment exposure' means the aggregate value of all equity, bond or other investments in or in respect of the counterparty or group of Related parties or property in question, together with off-balance sheet exposures to the same counterparty or group of Related counterparties or property that that fund has because the Insurer has issued guarantees, letters of credit or other credit substitutes (other than insurance contracts), or because it has entered into derivative contracts, but excluding any assets excluded from base fund capital in accordance with any of the Rules referred to in Rule A11.4.3(b); and

(b) 'AAA'-Rated Governments and Government agencies are not counterparties.

A11.8.3 An Insurer must calculate its concentration risk component in respect of a General Insurance Fund as the sum of the amounts obtained by multiplying each investment exposure of that fund that exceeds 10% of the adjusted segmental capital resources, by the relevant factor percentage set out in the table set out in Rule A4.8.3, reading that table as though all references to Adjusted Capital Resources were references to Adjusted Fund Capital Resources, and subject to Rule A8.8.4

A11.8.4 If the concentration risk component in respect of an investment exposure of a General Insurance Fund, aggregated with the sum of the default risk component, investment volatility risk component and off-balance sheet asset risk component (so far as concerns that fund), in respect of the assets and off-balance sheet exposures comprising that investment exposure, exceeds 100% of that investment exposure, the concentration risk component in respect of that investment exposure must be reduced so that the total of the three components in respect of that investment exposure is equal to 100% of that investment exposure.

A11.9 Size factor component

Guidance

The effect of the size factor component is to provide a relatively higher capital requirement in respect of General Insurance Funds with smaller portfolios of Invested Assets. The provisions in this section apply the relevant provisions of section A 4.9 to each General Insurance Fund that an Insurer maintains.

A11.9.1 The base figure for the size factor component is determined by aggregating the following components, for the General Insurance Fund:

(a) the aggregate of the default components determined in accordance with section A11.4, in respect of Invested Assets;

(b) the investment volatility risk component determined in accordance with section A11.5; and

(c) the concentration risk component determined in accordance with section A11.8.

A11.9.2 An Insurer must calculate the size factor component in respect of General Insurance Fund by multiplying the base figure for that fund as determined in accordance with Rule A11.9.1 by the factor derived by applying the following formula, where x represents the total Invested Assets attributable to that fund, expressed in millions of dollars:

(a) if $x \leq 100$, the factor is 1.5;

(b) if $100 < x \leq 200$, the factor is $(150 + 0.5(x-100))/x$;

(c) if $200 < x \leq 1{,}200$, the factor is $(200 – 0.2(x-200))/x$; and

(d) if $x > 1{,}200$, the factor is zero.

A11.10 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. The provisions in this section apply the relevant provisions of section A4.10 to each General Insurance Fund that an Insurer maintains.

A11.10.1 An Insurer must calculate an underwriting risk component in respect of a General Insurance Fund according to the method set out in section A4.10, applied as though all references in that section to an Insurer were instead references to that fund.

A11.11 Reserving risk component

Guidance

The purpose of the reserving 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 amounts recorded as liabilities in the Insurer's balance sheet. This calculation applies only to liabilities in respect of outstanding claims (the risk of deterioration in Premium Liability is addressed in the underwriting risk component in section A11.10). The principles of the calculation are similar to those in section A11.10, and apply the relevant provisions of section A4.11 to each General Insurance Fund that an Insurer maintains.

A11.11.1 An Insurer must calculate a reserving risk component in respect of a General Insurance Fund according to the method set out in section A4.11, applied as though all references in that section to an Insurer were instead references to that fund.

A11.12 Asset management risk component

Guidance

This section requires an Insurer to set aside capital in respect of assets that it manages. The provisions in this section apply the relevant provisions of section A4.13 to each General Insurance Fund that an Insurer maintains.

A11.12.1 An Insurer must calculate the asset management risk component in respect of a General Insurance Fund according to the method set out in section A4.13, applied as though all references in that section to an Insurer were instead references to that fund.