



**AIFC INSURANCE AND REINSURANCE  
PRUDENTIAL RULES**

**AIFC RULES NO. FR0030 OF 2018**

**(with amendments as of 13 December 2020,  
which commence on 13 December 2020)**

**Approval Date: 2 December 2018**

**Commencement Date: 2 December 2018**



CONTENTS

<b>1</b>	<b>General provisions</b> .....	<b>4</b>
1.1	Introduction .....	4
1.2	Insurance Business .....	4
1.3	Classification of Contracts of Insurance.....	5
1.4	Restrictions in respect of Insurance Business .....	5
1.5	Core obligations of Insurers.....	5
<b>2</b>	<b>Systems and Controls</b> .....	<b>7</b>
2.1	Systems for risk management and internal controls .....	7
2.2	Controlled Functions .....	7
2.3	Outsourcing.....	8
<b>3</b>	<b>Risk Management Strategy</b> .....	<b>10</b>
3.1	Risk Management Strategy .....	10
<b>4</b>	<b>Own Risk and Solvency Assessment (ORSA)</b> .....	<b>13</b>
4.1	The ORSA.....	13
4.2	The ORSA Report .....	14
<b>5</b>	<b>Capital adequacy requirements</b> .....	<b>15</b>
5.1	Application .....	15
5.2	Calculation of Eligible Capital and capital requirements .....	15
5.3	Use of Internal models to calculate capital requirements.....	15
5.4	Solvency control levels.....	18
5.5	Reduction of Eligible Capital.....	19
5.6	Notification of dividends and distributions.....	20
<b>6</b>	<b>Investment</b> .....	<b>21</b>
6.1	Admissible assets .....	21
6.2	Investment restrictions .....	22
6.3	Investment policy and procedures .....	22
<b>7</b>	<b>Segregation of Long-Term Insurance assets and liabilities</b> .....	<b>23</b>
7.1	Establishment of Long-Term Insurance Funds .....	23
7.2	Attribution of contracts to a Long-Term Insurance Fund .....	24
7.3	Segregation of assets and liabilities .....	24
7.4	Recordkeeping: attribution of assets and liabilities to Long-Term Insurance Fund.....	25
7.5	Limitation on use of assets in Long-Term Insurance Fund.....	25
<b>8</b>	<b>Valuation</b> .....	<b>27</b>
8.1	Matching assets and liabilities .....	27
8.2	Recognition and measurement of assets and liabilities .....	27
8.3	Treatment of particular assets and liabilities - General Insurance Business .....	29



8.4	Treatment of particular assets and liabilities - Long-Term Insurance .....	29
<b>9</b>	<b>Actuarial reporting .....</b>	<b>31</b>
9.1	Insurers that are required to have Approved Actuaries .....	31
9.2	Insurers that are not required to have an Approved Actuary .....	33
<b>10</b>	<b>Insurers that are members of Groups .....</b>	<b>36</b>
<b>11</b>	<b>Transfer of insurance business .....</b>	<b>40</b>
11.1	Introduction .....	40
11.2	Sanction Order .....	40
11.3	The Scheme Report .....	40
11.4	Notice requirements .....	41
<b>12</b>	<b>Insurers in run-off.....</b>	<b>43</b>
12.1	Application and purpose.....	43
12.2	Insurers ceasing to effect Contracts of Insurance in a category.....	43
12.3	Run-off plans.....	44
12.4	Provisions in respect of contracts relating to Insurance Business in run-off.....	46
12.5	Limitations on distributions by AIFC-incorporated Insurers in run-off .....	46
<b>13</b>	<b>Prudential returns.....</b>	<b>48</b>
<b>14</b>	<b>Captive Insurers .....</b>	<b>49</b>
14.1	Introduction .....	49
14.2	Protected Cell Companies.....	50
14.3	Application of PINS to Captive Insurers.....	50
14.4	Capital adequacy requirements for Captive Insurers .....	51
<b>SCHEDULE 1</b>	<b>Categories of General Insurance .....</b>	<b>54</b>
<b>SCHEDULE 2</b>	<b>Categories of Long-Term Insurance.....</b>	<b>57</b>
<b>SCHEDULE 3</b>	<b>Calculation of Eligible capital.....</b>	<b>58</b>
<b>SCHEDULE 4</b>	<b>Calculation of Minimum Capital Requirement (MCR) .....</b>	<b>63</b>
<b>SCHEDULE 5</b>	<b>Calculation of Prescribed Capital Requirement (PCR).....</b>	<b>65</b>
<b>SCHEDULE 6</b>	<b>Prudential returns by Insurers .....</b>	<b>78</b>
<b>WORKING SCHEDULE 1</b>	<b>List of Defined Terms for PINS and associated rulebooks .....</b>	<b>80</b>



### 1 General provisions

#### 1.1 Introduction

##### 1.1.1 Name of rules

These rules are the AIFC Insurance and Reinsurance Prudential Rules (or PINS).

##### 1.1.2 Application of PINS

These rules apply to every Insurer except where otherwise provided.

##### 1.1.3 Key Definitions

- (1) An Insurer is an Authorised Firm with a Licence to conduct Insurance Business.
- (2) Insurance Business is the business of conducting either or both of the following Regulated Activities: (a) Effecting Contracts of Insurance; (b) Carrying out Contracts of Insurance.
- (3) An AIFC-Incorporated Insurer is an Insurer that is incorporated as a legal entity under the laws of the AIFC.

##### **Guidance: Branches**

Note that certain of the obligations set out in this rulebook do not apply to Insurers that are Branches of entities established and regulated outside the AIFC. The term AIFC-Incorporated Insurer is used to refer to an Insurer that is incorporated as a legal entity under the laws of the AIFC and thus excludes Branches of legal entities incorporated outside the AIFC.

##### **Guidance: Reinsurance**

Note that the term Insurer includes any reinsurer and the term Contract of Insurance includes any Contract of Reinsurance.

#### 1.2 Insurance Business

##### 1.2.1 Types of Insurance Business

- (1) General Insurance Business is Insurance Business in relation to General Insurance Contracts.
- (2) Long-Term Insurance Business is Insurance Business in relation to Long-Term Insurance Contracts.

##### 1.2.2 Types of Insurance Contracts

- (1) A General Insurance Contract is a Contract of Insurance that falls within one of the categories set out in Schedule 1.
- (2) A Long-Term Insurance Contract is a Contract of Insurance that falls within one of the categories set out in Schedule 2.



### **1.3 Classification of Contracts of Insurance**

#### **1.3.1 Classification of contracts**

An Insurer must, in its own records, classify all Contracts of Insurance carried out by it as Insurer, including all Contracts of Reinsurance entered into by it as cedant, according to the category to which the Contracts of Insurance relate.

#### **1.3.2 Classification of contracts falling into two or more categories**

Where a Contract of Insurance relates to more than one category, the Insurer must record separately the portions of the Contract of Insurance that relate to each category, except that immaterial portions need not be separately recorded.

### **1.4 Restrictions in respect of Insurance Business**

#### **1.4.1 Restriction on combining certain kinds of Insurance Business**

An Insurer must not carry on, in or from the AIFC, both Long-Term Insurance Business and General Insurance Business unless the General Insurance Business is restricted to General Insurance Categories 1 (accident) and 2 (sickness).

#### **1.4.2 Restriction on Insurers carrying on non-insurance business**

- (1) An Insurer must not carry on any activity other than Insurance Business unless the activity is directly connected with, or carried on for the purposes of, Insurance Business.
- (2) For the avoidance of doubt, Managing Investments is not an activity directly connected with, or carried on for the purposes of, Insurance Business.

### **1.5 Core obligations of Insurers**

#### **1.5.1 Obligation to establish and maintain systems and controls**

An Insurer must establish and maintain systems and controls in accordance with the requirements of PINS 2 (Systems and Controls) and GEN 5 (Systems and Controls).

#### **1.5.2 Obligation to maintain a risk management strategy**

An Insurer must establish and implement a Risk Management Strategy in accordance with the requirements of PINS 3 (Risk Management Strategy).

#### **1.5.3 Obligation to conduct Own Risk and Solvency Assessment**

An AIFC-Incorporated Insurer must conduct an Own Risk and Solvency Assessment and submit a report thereon to AFSA in accordance with the requirements of PINS 4 (Own Risk and Solvency Assessment (ORSA)).

#### **1.5.4 Obligation to maintain Eligible Capital**

An AIFC-Incorporated Insurer must at all times maintain Eligible Capital in an amount and of a quality required by PINS 5 (Capital adequacy requirements).



### **1.5.5 Obligations in respect of Investments**

An Insurer must make investments in accordance with the requirements of PINS 6 (Investment).

### **1.5.6 Obligation to maintain Long-Term Insurance Funds**

An Insurer carrying on Long-Term Insurance Business must segregate its Long-Term Insurance assets and liabilities in accordance with PINS 7 (Segregation of Long-Term Insurance assets and liabilities)

### **1.5.7 Obligations in respect of Assets and Liabilities**

An AIFC-Incorporated Insurer must value its assets and liabilities in accordance with the requirements of PINS 8 (Valuation).

### **1.5.8 Obligation to produce actuarial reports**

An Insurer must prepare and submit to the AFSA the actuarial reports that it is required to produce pursuant to the requirements of PINS 9 (Actuarial reporting).

### **1.5.9 Obligations in respect of groups**

An Insurer that is a member of a group must comply with the requirements of PINS 10 (Insurers that are members of Groups).

### **1.5.10 Obligations in respect of Insurance Business Transfers**

An Insurer that is party to an Insurance Business Transfer must comply with the requirements of PINS 11 (Transfer of insurance business).

### **1.5.11 Obligations in respect of Run-off**

An Insurer that is in Run-off must comply with the requirements of PINS 12 (Insurers in run-off).

### **1.5.12 Obligation to prepare prudential returns**

An Insurer must prepare the prudential returns that it is required to produce pursuant to PINS 13 (Prudential returns).



## 2 Systems and Controls

### Guidance: systems and controls requirements in GEN

As an Authorised Person, an Insurer is required to comply with the Systems and Controls requirements in GEN 5. The requirements of this Chapter are in addition to the requirements of GEN 5.

### 2.1 Systems for risk management and internal controls

#### 2.1.1 Risk management function

An Insurer must establish and maintain an effective risk management function capable of assisting the Insurer to identify, assess, monitor, mitigate and report on its key risks in a timely way; and to promote and sustain a sound risk culture.

#### Guidance: additional requirements in GEN

An Insurer is also subject to obligations in respect of operational risk, legal risk and fraud risk pursuant to GEN 5.8 (Management of risks).

#### 2.1.2 Actuarial function

An Insurer must establish and maintain an effective actuarial function capable of evaluating and providing advice regarding, at a minimum, technical provisions, premium and pricing activities, capital adequacy, reinsurance and compliance with related statutory and regulatory requirements.

### 2.2 Controlled Functions

#### 2.2.1 Designation of roles as Controlled Functions

The following functions are prescribed as Controlled Functions within the meaning of section 20 of the FSFR:

- (a) Insurance Risk Manager;
- (b) Insurance Internal Audit Manager; and
- (c) Approved Actuary.

#### 2.2.2 Mandatory appointments

- (1) An Insurer must make the following appointments and ensure that they are held by one or more Approved Individuals at all times:
  - (a) Insurance Risk Manager; and
  - (b) Insurance Internal Audit Manager.
- (2) An Insurer must also appoint an Approved Actuary and ensure that such role is held at all times by an Approved Individual if:
  - (a) it conducts Long-Term Insurance Business; or



- (b) it conducts General Insurance Business and;
  - (i) more than 15% of its gross outstanding liabilities are attributable to Contracts of Insurance for General Insurance Business in General Insurance Categories 1 (Accident) or 2 (Sickness); or
  - (ii) more than 20% of its gross outstanding liabilities are attributable to Contracts of Insurance for General Insurance Business in General Insurance Categories 10 (Motor vehicle liability), 11 (Aircraft liability), 12 (Liability of ships), 13 (General liability), 14 (Credit) or 15 (Suretyship).

### **2.2.3 Insurance Risk Manager**

The Insurance Risk Manager is an individual who has responsibility for the Insurer's risk management function.

### **2.2.4 Insurance Internal Audit Manager**

The Insurance Internal Audit Manager is an individual who has responsibility:

- (a) for the Insurer's internal audit policies, procedures and controls; and
- (b) for taking appropriate steps to ensure the implementation of and compliance with those policies, procedures and controls.

### **2.2.5 Approved Actuary**

- (1) The Approved Actuary is an individual who has responsibility:
  - (a) for the Insurer's actuarial policies, procedures and controls; and
  - (b) for taking appropriate steps to ensure the implementation of and compliance with those policies, procedures and controls.
- (2) The Approved Actuary must not be an individual who:
  - (a) exercises the Senior Executive Function for the Insurer or a related body corporate (except a related body corporate that is a subsidiary of the Insurer); or
  - (b) is an Employee or Director of an auditor for the Insurer.

## **2.3 Outsourcing**

### **2.3.1 Outsourcing of risk management function (PINS 2.1.1)**

An Insurer may only outsource its risk management function to an Insurance Manager, subject to the rules relating to outsourcing in GEN 5.2 (Outsourcing).

### **2.3.2 Outsourcing of actuarial function (PINS 2.1.2)**

An Insurer may only outsource its actuarial function to an Insurance Manager, subject to the rules relating to outsourcing in GEN 5.2 (Outsourcing).





**2.3.3 Outsourcing of Controlled Functions (PINS 2.2 and GEN 2.2)**

An Insurer may appoint an Employee of an Insurance Manager to perform the Controlled Function of Insurance Risk Manager, Insurance Internal Audit Manager, Approved Actuary, Finance Officer and/or Compliance Officer, provided that such Employee is an Approved Individual.



### **3 Risk Management Strategy**

#### **3.1 Risk Management Strategy**

##### **3.1.1 Core obligations**

- (1) An Insurer must establish, document and implement a Risk Management Strategy that is appropriate to the nature, scale and complexity of its business.
- (2) An Insurer must not intentionally deviate in a material way from its Risk Management Strategy unless such deviation has been
  - (a) approved by its Governing Body in accordance with PINS 3.1.5 (Approval of Risk Management Strategy) below; and
  - (b) notified to the AFSA in accordance with PINS 3.1.6 (Notification of the AFSA) below.

##### **3.1.2 Contents of Risk Management Strategy**

An Insurer's Risk Management Strategy must:

- (a) provide for the identification and quantification of material risks under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks it bears;
- (b) include a Risk Management Policy that complies with PINS 3.1.3 (Contents of Risk Management Policy);
- (c) include a Risk Tolerance Statement that complies with the requirements of PINS 3.1.4 (Contents of Risk Tolerance Statement);
- (d) be supported by accurate documentation;
- (e) describe how the Insurer will:
  - (i) ensure that relevant staff have an awareness of risk issues and the accessibility of the Risk Management Strategy; and
  - (ii) instil an appropriate risk culture; and
- (f) include a business continuity plan for ensuring that critical business operations can be maintained or recovered in a timely fashion in the event of disruption.
- (g) be responsive to changes in its risk profile; and
- (h) incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile.

##### **3.1.3 Contents of Risk Management Policy**

An Insurer's Risk Management Policy must:



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (a) describe how all relevant and material categories of financial and non-financial risk are monitored, measured and managed, both in the Insurer's business strategy and its day-to-day operations, including at least the following risks:
  - (i) credit risk;
  - (ii) balance sheet and market risk (including investment, asset-liability management, liquidity and derivatives risks);
  - (iii) reserving risk;
  - (iv) insurance risk (including underwriting, product design, pricing and claims settlement risks);
  - (v) reinsurance risk;
  - (vi) operational risk (including business continuity, outsourcing, fraud, technology, legal and project management risks);
  - (vii) concentration risk;
  - (viii) group risk.
- (b) describe the relationship between the Insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk;
- (c) include the following specific policies:
  - (i) a policy regarding investment that specifies the nature, role and extent of the Insurer's investment activities and how the Insurer complies with the investment requirements under these rules;
  - (ii) a policy regarding asset-liability management that specifies the nature, role and extent of asset-liability management activities and their relationship with product development, pricing and investment management;
  - (iii) a policy regarding underwriting that specifies the risks to be accepted by the Insurer as part of its insurance business, the processes for underwriting, pricing and claims settlement;
  - (iv) a policy ensuring that any Contract of Reinsurance to which it is a party is finalised (and the material documents supporting the contract are completed) before the start of reinsurance cover (the start date), or as soon as possible after the start date (but in no case later than 60 calendar days after the start date);
  - (v) a policy regarding procedures for business continuity that enable the Insurer to manage any initial disruption of business and to recover critical business operations following such a disruption.

### 3.1.4 Contents of Risk Tolerance Statement

An Insurer's Risk Tolerance Statement must:

- (a) set out its overall quantitative and qualitative risk tolerance levels;



- (b) define risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them.

### **3.1.5 Approval of Risk Management Strategy**

- (1) An Insurer's Risk Management Strategy must be approved by its Governing Body.
- (2) Any material change to or deviation from an Insurer's Risk Management Strategy must be approved by its Governing Body.
- (3) In giving its approval to a Risk Management Strategy, or to any amendment to or deviation from a Risk Management Strategy, the Governing Body of an Insurer must be satisfied that:
  - (a) the strategy and any changes to it mitigate and control the risks included in the Insurer's Risk Management Policy; and
  - (b) the Risk Management Policy is appropriate and gives reasonable assurance that all material risks facing the Insurer are prudently and soundly managed having regard to the nature, scale and complexity of the Insurer's business.

### **3.1.6 Notification of the AFSA**

- (1) An Insurer must give to the AFSA a copy of its Risk Management Strategy, and any subsequently amended version of that strategy, within 10 business days after its approval.
- (2) An Insurer must notify the AFSA of any material deviation from its Risk Management Strategy at least 10 business days before the deviation.



### 4 Own Risk and Solvency Assessment (ORSA)

#### 4.1 The ORSA

##### 4.1.1 Obligation to conduct an Own Risk and Solvency Assessment

- (1) An AIFC-Incorporated Insurer must:
  - (a) conduct an Own Risk and Solvency Assessment (ORSA) in accordance with PINS 4.1.2 (ORSA – requirements) at least annually; and
  - (b) submit a report to the AFSA on its ORSA (an ORSA Report) in accordance with PINS 4.2.1 (ORSA Report - requirements).
- (2) An AIFC-Incorporated Insurer must conduct a fresh ORSA and submit a revised ORSA report to the AFSA if there is a change to its Risk Management Strategy, strategic plan or business plan and the change results, or there are reasonable grounds to believe that the change will result, in a material change in the capital adequacy or solvency of the AIFC-Incorporated Insurer.

##### 4.1.2 ORSA – requirements

- (1) In conducting an ORSA, an AIFC-Incorporated Insurer must assess:
  - (a) its overall solvency needs, including its own view of the adequacy of its capital resources to meet the regulatory capital requirements;
  - (b) the actions it has taken to manage the risks to which it is exposed;
  - (c) the financial resources needed:
    - (i) to manage its business prudently; and
    - (ii) to meet the capital adequacy requirements in PINS 5 (Capital adequacy requirements);
  - (d) the nature and quality of the capital resources needed, having regard to their loss-absorbing capacity and liquidity;
  - (e) the effect on the Insurer's solvency position of all reasonably foreseeable and relevant changes in its risk profile (including group-specific risks); and
  - (f) its ability to meet its Minimum Capital Requirements and Prescribed Capital Requirement and continue in business, and the financial resources needed, over periods longer than those typically used for calculating its capital adequacy requirements under PINS 5 (Capital adequacy requirements).
- (2) An AIFC-Incorporated Insurer must include as part of any quantitative evaluation in its ORSA:
  - (a) stress and scenario tests;
  - (b) the occurrence of extreme events to which the Insurer is exposed; and



- (c) other unlikely but possible adverse scenarios that would render the Insurer's business model unviable.
- (3) The ORSA must be appropriate to the nature, scale and complexity of the AIFC-Incorporated Insurer's business.

### **4.2 The ORSA Report**

#### **4.2.1 ORSA Report - requirements**

An AIFC-Incorporated Insurer's ORSA Report must present all of the following:

- (a) the qualitative and quantitative results of the ORSA and the conclusions drawn by the AIFC-Incorporated Insurer from those results;
- (b) the methods and main assumptions used in the ORSA;
- (c) information on the AIFC-Incorporated Insurer's overall solvency needs and a comparison of those solvency needs with its capital adequacy requirements under PINS 5 (Capital adequacy requirements) and its Eligible Capital;
- (d) qualitative and (if relevant) quantitative information on the extent to which quantifiable risks to which the AIFC-Incorporated Insurer is exposed are not reflected in the calculation of the Prescribed Capital Requirement.

#### **4.2.2 ORSA Report – approval by the Governing Body**

An ORSA Report must include a statement that the Governing Body of the AIFC-Incorporated Insurer participated in the ORSA and approved the ORSA Report.



### **5 Capital adequacy requirements**

#### **5.1 Application**

##### **5.1.1 Application**

This Chapter applies to an AIFC-Incorporated Insurer.

#### **5.2 Calculation of Eligible Capital and capital requirements**

##### **5.2.1 Obligation to calculate Eligible Capital**

An AIFC-Incorporated Insurer must calculate its Eligible Capital on an ongoing basis in accordance with the rules set out in Schedule 3 (Calculation of Eligible capital).

##### **5.2.2 Obligation to calculate MCR**

An AIFC-Incorporated Insurer must calculate its Minimum Capital Requirement (MCR) on an ongoing basis in accordance with the rules set out in Schedule 4 (Calculation of Minimum Capital Requirement (MCR)).

##### **5.2.3 Obligation to calculate PCR**

An AIFC-Incorporated Insurer must:

- (a) calculate its Prescribed Capital Requirement (PCR) at least once a year in accordance with the rules set out in Schedule 5 (Calculation of Prescribed Capital Requirement (PCR)); and
- (b) recalculate its PCR without delay if its risk profile deviates significantly from the risk profile detailed in its last reported PCR.

#### **5.3 Use of Internal models to calculate capital requirements**

##### **5.3.1 Approval by AFSA**

The AFSA may, by written notice, allow an AIFC-Incorporated Insurer to use its own internal model to calculate a component or components of its PCR.

##### **Guidance**

Note that the AFSA is not currently in a position to consider applications for the use of internal models. The AFSA will notify Insurers when this position changes.

##### **5.3.2 Criteria for approving use of internal models**

The AFSA will only consider allowing an AIFC-Incorporated Insurer to use its internal model if it is satisfied that the model:

- (a) operates within a risk management environment that is conceptually sound and supported by adequate resources;
- (b) addresses all material risks to which the AIFC-Incorporated Insurer could reasonably be expected to be exposed and is commensurate with the relative importance of those risks, based on the AIFC-Incorporated Insurer's business mix;



- (c) is closely integrated into the day-to-day management process of the AIFC-Incorporated Insurer;
- (d) is supported by appropriate audit and compliance procedures;
- (e) is subjected to, as a minimum, three tests: “statistical quality test”, “calibration test” and “use test”, the results of which demonstrate that the model is appropriate for regulatory capital purposes; and
- (f) is subject to adequate processes established by the AIFC-Incorporated Insurer to validate the accuracy of the calculations made using the internal model, as well as for monitoring and assessing its ongoing performance.

### 5.3.3 Statistical quality test

An AIFC-Incorporated Insurer seeking approval for its internal model must demonstrate:

- (a) that the PCR or component(s) of the PCR calculated using the internal model addresses the overall risk position of the AIFC-Incorporated Insurer subject to the nature, scale and complexity of the AIFC-Incorporated Insurer and its risk exposures;
- (b) the theoretical validity of the internal model including:
  - (i) the suitability of model structure, data (including completeness and accuracy), and estimation within the AIFC-Incorporated Insurer’s business context;
  - (ii) the appropriateness of the internal model basis within the industry context, including methodological benchmarking to alternatives and best practice;
  - (iii) the appropriateness of the parameter estimations. It should be demonstrated that the parameter estimations are appropriate within the market and industry context and parameter uncertainty is addressed to the extent possible; and
  - (iv) the consistency, soundness and justification of the methodologies, distributions, aggregation techniques and dependencies (within and among risk categories) adopted.
- (c) the analytical validity of the internal model including:
  - (i) the statistical process for validating that the results of the model are fit for the purpose for which they are used;
  - (ii) the implementation of the model given the theoretical basis, goodness of fit, forecasting capability for out-of sample observations (backtesting), sensitivity to changes in key underlying assumptions and stability of outputs;
  - (iii) the backtesting applied at various levels of the business activity;
  - (iv) the sensitivity analysis undertaken, which should validate the parts of the internal model where expert judgement is used and should examine whether the model output is sensitive to changes in key assumptions;
  - (v) the convergence of the model to demonstrate that model outputs are statistically significant;





- (vi) the processes of monitoring the model's performance; and
- (vii) where possible, benchmarking the model results and techniques with peers, available literature and research.

### 5.3.4 Calibration test

An AIFC-Incorporated Insurer must demonstrate that the PCR or component(s) of the PCR produced by its internal model is consistent with the specified modelling criteria.

### 5.3.5 Use test

- (1) An AIFC-Incorporated Insurer must demonstrate that the internal model (its methodologies and results) is fully integrated within its risk and capital management and system of governance processes and procedures.
- (2) An AIFC-Incorporated Insurer's Governing Body is required to:-
  - (a) have overall control of and responsibility for the construction and use of the internal model for risk management purposes;
  - (b) have sufficient understanding of the model's construction at appropriate levels within the AIFC-Incorporated Insurer's organisational structure;
  - (c) have an understanding of the consequences of the internal model's outputs and limitations for risk and capital management decisions.
- (3) An AIFC-Incorporated Insurer must have adequate governance and internal controls in place with respect to the internal model.

### 5.3.6 Documentation

- (1) An AIFC-Incorporated Insurer must document, at a minimum:
  - (a) the design, construction, modelling criteria and governance of the internal model;
  - (b) the justification for and details of the underlying methodology, assumptions and quantitative and financial bases;
  - (c) if applicable, why it has chosen to only use a partial internal model for certain risks or business lines; and
  - (d) if applicable, the reliance on and appropriateness of the use of external vendors/suppliers.
- (2) The documentation must be sufficiently detailed to demonstrate compliance with the statistical quality test, calibration test and use test.
- (3) The documentation of the internal model must be timely and up to date.

### 5.3.7 Ongoing validation and supervisory approval of the internal model

An AIFC-Incorporated Insurer using an internal model must:



- (a) monitor the performance of its internal model and regularly review and validate the ongoing appropriateness of the model's specifications against the criteria set out in 5.3.2 to 5.3.5;
- (b) notify the AFSA of material changes to the internal model made by it for review and continued approval of the use of the model for regulatory capital purposes;
- (c) properly document internal model changes;
- (d) report information necessary for supervisory review and ongoing approval of the internal model on a regular basis, as determined appropriate by the AFSA.

### **5.4 Solvency control levels**

#### **5.4.1 Obligation to maintain Eligible Capital at or above MCR**

An AIFC-Incorporated Insurer must at all times have Eligible Capital equal to or higher than the amount of its MCR.

#### **5.4.2 Obligation to maintain Eligible Capital at or above PCR**

An AIFC-Incorporated Insurer must at all times have Eligible Capital equal to or higher than the amount of its PCR.

#### **5.4.3 Non-Compliance with the PCR**

If an AIFC-Incorporated Insurer becomes aware that it does not have, or there is a risk that within the following three months it will not have, Eligible Capital equal to or higher than the amount of its PCR, it must:

- (1) immediately inform the AFSA;
- (2) within one month, submit to the AFSA for its approval a short-term realistic finance scheme which complies with the requirements of PINS 5.4.6 (Contents of recovery plans and finance schemes);
- (3) within six months (or such longer period as the AFSA may specify), take the measures necessary to achieve the re-establishment of Eligible Capital covering the PCR, or the reduction of its risk profile to ensure compliance with the PCR; and
- (4) take such steps (if any) as the AFSA may require, which steps may be specified by the ASFA as in addition to, or instead of, the measures in (3).

#### **5.4.4 Non-Compliance with the MCR**

If an AIFC-Incorporated Insurer becomes aware that it does not have, or there is a risk that within the following three months it will not have, Eligible Capital equal to or higher than the amount of its MCR, it must

- (1) immediately inform the AFSA;
- (2) within two months, submit to the AFSA for its approval a short-term realistic finance scheme which complies with the requirements of PINS 5.4.6 (Contents of recovery plans and finance schemes);



- (3) within six months (or such longer period as the AFSA may allow), take the measures necessary to achieve the re-establishment of the level of Eligible Capital covering the MCR, or the reduction of its risk profile to ensure compliance with the MCR; and
- (4) take such steps (if any) as the AFSA may require, which steps may be specified by the AFSA as in addition to, or instead of, the measures in (3).

### **5.4.5 Other regulatory actions not precluded**

The fact that an AIFC-Incorporated Insurer has Eligible Capital equal to or in excess of its PCR or its MCR does not preclude the AFSA from intervention, or from requiring action by the AIFC-Incorporated Insurer for other reasons, such as weaknesses in the risk management or governance of the Insurer.

### **5.4.6 Contents of recovery plans and finance schemes**

Any recovery plan or finance scheme must as a minimum include:

- (a) estimates of management expenses, in particular current general expenses and commissions;
- (c) estimates of income and expenditure in respect of direct business, reinsurance acceptances and reinsurance cessions;
- (d) a forecast balance sheet;
- (e) information about the AIFC-Incorporated Insurer's overall policy regarding reinsurance; and
- (f) such other information as the AFSA may specify in writing.

### **5.4.7 Eligible Capital below the level of the Capital Floor**

If at any time an AIFC-Incorporated Insurer becomes aware that it does not have Eligible Capital in excess of the amount of the Capital Floor specified in Schedule 4 (Calculation of Minimum Capital Requirement (MCR)), it must immediately

- (a) stop effecting new Contracts of Insurance; and
- (b) inform the AFSA.

## **5.5 Reduction of Eligible Capital**

### **5.5.1 Tier 1 Capital not to be reduced without approval**

An AIFC-Incorporated Insurer must not reduce the Tier 1 Capital component of its Eligible Capital without the prior written approval of the AFSA.

### **5.5.2 Capital plan to be provided**

When seeking approval for a reduction of its Tier 1 Capital under PINS 5.5.1 (Tier 1 Capital not to be reduced without approval), an AIFC-Incorporated Insurer must provide to the AFSA a capital plan that has incorporated the effects of the proposed reduction and:



- (a) demonstrates that the AIFC-Incorporated Insurer will remain in excess of its MCR for 2 years without relying on new capital issues;
- (b) is consistent with the AIFC-Incorporated Insurer's business plan; and
- (c) takes account of any possible acquisitions, locked-in capital in subsidiaries and the possibility of exceptional losses.

### **5.5.3 Notice to be given of proposed reduction of Tier 2 Capital**

An AIFC-Incorporated Insurer must notify the AFSA of its intention to reduce its Tier 2 Capital at least 6 months before the actual date of the proposed reduction, providing details of how it will meet its MCR after the proposed reduction.

## **5.6 Notification of dividends and distributions**

### **5.6.1 Dividends and distributions to be reported**

An AIFC-Incorporated Insurer must report to the AFSA all dividends and other distributions to shareholders within 15 business days following the declaration of the dividend or distribution.



### **6 Investment**

#### **6.1 Admissible assets**

##### **6.1.1 Security, liquidity, location and diversification**

An Insurer when, investing in assets, must consider whether, for the portfolio as a whole -

- (a) its assets are sufficiently secure having regard to their capacity to protect their value and preserve their economic substance;
- (b) its assets are sufficiently liquid to ensure that the Insurer is able to make payments to policyholders and creditors as they fall due
- (c) its assets are held in the appropriate location for their availability; and
- (d) its assets are sufficiently diversified subject to the nature, scale and complexity of the business.

##### **6.1.2 Assets appropriate to liabilities**

- (1) An Insurer must invest in a manner that is appropriate to the nature of its liabilities.
- (2) In particular, an Insurer must:
  - (a) consider the extent to which the cash flows from its investments match the liability cash flows in both timing and amount and how these changes in varying conditions;
  - (b) consider the investment guarantees and embedded options that are contained in its policies;
  - (c) consider the currency or currencies of its liabilities and the extent to which they are matched by the currencies of the assets;
  - (d) manage conflicts of interest (e.g. between the Insurer's corporate objectives and disclosed insurance policy objectives) to ensure assets are invested appropriately;
  - (e) for with-profits liabilities, hold an appropriate mix of assets to meet policyholders' reasonable expectations; and
  - (f) if it is part of an insurance group, hold investments tailored to the characteristics of its liabilities and its needs and not be subject to undue influence from the wider objectives of the group.

##### **6.1.3 Ability to assess risks**

- (1) An Insurer must only invest in assets whose risks it can properly assess and manage.
- (2) In particular, an Insurer must:
  - (a) ensure its investments, including those in collective investment funds, are sufficiently transparent and limit its investments to those where the associated risks of the asset can be properly managed by it



- (b) ensure that it understands all of the risks involved in an investment before any investments are undertaken;
- (d) if it is able to look through the structure of an investment to the underlying assets, consider the risk characteristics of the underlying assets and how this affects the risk characteristics of the investments itself
- (e) if it is not able to look through the structure of an investment to the underlying assets, develop appropriate techniques to assess the risks associated with the investment.

### **6.2 Investment restrictions**

#### **6.2.1 Assets not admitted to trading on a regulated financial market**

An Insurer must ensure that assets and securities that are not admitted to trading on a regulated financial market are kept to prudent levels.

#### **6.2.2 Derivatives**

- (1) An Insurer must not use a Derivative instrument for speculation or proprietary trading.
- (2) An Insurer may only use a Derivative instrument:
  - (a) to apply an index tracking strategy to part or all of a portfolio;
  - (b) to apply capital protected strategies to part or all of a portfolio;
  - (c) to apply efficient portfolio management techniques to a portfolio; or
  - (d) to reduce investment risk currently employed on a portfolio.

#### **6.2.3 Forward foreign exchange transactions**

An Insurer must not invest in forward foreign exchange transactions save to the extent that they hedge currency exposures to currencies other than the reporting currency in its prudential returns.

### **6.3 Investment policy and procedures**

#### **6.3.1 Investment policy**

An Insurer must establish and maintain an investment policy which specifies

- (a) the nature, role and extent of its investment activities; and
- (b) how it complies with PINS 6.1 (Admissible assets).

#### **6.3.2 Procedures for complex and non-transparent investments**

An Insurer must establish procedures for managing the risk associated with more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation



## **7 Segregation of Long-Term Insurance assets and liabilities**

### **7.1 Establishment of Long-Term Insurance Funds**

#### **7.1.1 Long-Term Insurance Funds to be established**

An Insurer conducting Long-Term Insurance Business must either:

- (a) establish and maintain one or more Long-Term Insurance Funds; or
- (b) notify the AFSA that the Insurer is deemed to constitute a single Long-Term Insurance Fund.

#### **7.1.2 Long-Term Insurance Fund**

- (1) Unless (2) applies, all the Long-Term Insurance Assets of an Insurer constitute its Long-Term Insurance Fund.
- (2) Where an Insurer identifies particular Long-Term Insurance Assets in connection with different parts of its Long-Term Insurance Business, the assets identified in relation to each such part constitute separate Long-Term Insurance Funds of the Insurer.

#### **7.1.3 Long-Term Insurance Assets**

- (1) An Insurer's Long-Term Insurance Assets are the items in (2), adjusted to take account of:
  - (a) outgo in respect of the Insurer's Long-Term Insurance Business; and
  - (b) any transfers made out of the Long-Term Insurance Fund in accordance with PINS 7.5.2 (Transfers of assets out of Long-Term Insurance Funds).
- (2) The items are:
  - (a) admissible assets identified by the Insurer as being available to cover liabilities arising under or in connection with Long-Term Insurance Business with due regard to generally accepted actuarial practice (including assets into which those assets have been converted) but excluding any assets identified as being held to cover liabilities in respect of subordinated debt;
  - (b) any other assets identified by the Insurer as being available to cover its liabilities arising from Long-Term Insurance Business (including assets into which those assets have been converted) including, if the Insurer so elects, assets which are excluded under (a);
  - (c) premiums and other receivables in respect of Long-Term Insurance Business;
  - (d) other receipts of the Long-Term Insurance Business; and
  - (e) all income and capital receipts in respect of the items set out in (2).



### **7.1.4 Insurer deemed to constitute Long-Term Insurance Fund to be treated as though it had established such fund**

An Insurer that is deemed, in accordance with PINS 7.1.1(b), to constitute a single Long-Term Insurance Fund shall be treated for all purposes relating to these rules as though the Insurer had established a Long-Term Insurance Fund to which all of the assets and liabilities of the Insurer are attributed.

### **7.1.5 Treatment of Branches**

An Insurer that is a Branch and that is subject to a regulatory requirement in another jurisdiction to arrange its affairs in a manner that is equivalent or substantially equivalent to the requirements of PINS 7.1.1 may make an application to the AFSA for that arrangement of its affairs to be deemed to constitute a Long-Term Insurance Fund.

#### **Guidance**

If the AFSA approves an application under PINS 7.1.5, it will give a written notice to the Branch stating the manner in which the arrangement will be deemed to constitute a Long-Term Insurance Fund.

## **7.2 Attribution of contracts to a Long-Term Insurance Fund**

### **7.2.1 Business to be attributed to Long-Term Insurance Funds**

An Insurer must attribute all Long-Term Insurance Business that it conducts to a Long-Term Insurance Fund.

### **7.2.2 Attribution of General Insurance Contracts**

- (1) Except as allowed for in (2), an Insurer may not attribute General Insurance Contracts to a Long-Term Insurance Fund.
- (2) An Insurer may attribute Contracts of Insurance in General Insurance Category 1 (Accident) and General Insurance Category 2 (Sickness) to a Long-Term Insurance Fund.

## **7.3 Segregation of assets and liabilities**

### **7.3.1 Separate identification of assets, liabilities, revenues and expenses**

An Insurer that is required under PINS 7.1.1 (Long-Term Insurance Funds to be established) to establish and maintain one or more Long-Term Insurance Funds, or has attributed Contracts of Insurance in General Insurance Category 1 (Accident) or General Insurance Category 2 (Sickness) to a Long-Term Insurance Fund under PINS 7.2.2(2) (Attribution of General Insurance Contracts), must:

- (a) identify separately in its books and records the assets, liabilities, revenues and expenses attributable to that business; and
- (b) ensure those assets, liabilities, revenues and expenses are recorded separately and accounted for as Long-Term Insurance Fund.





### **7.3.2 Recording of assets, liabilities, revenues and expenses**

An Insurer must record all assets, liabilities, revenues and expenses in respect of a Contract of Insurance that is attributed to a Long-Term Insurance Fund as assets, liabilities, revenues and expenses of that Long-Term Insurance Fund.

### **7.3.3 Attribution of assets not already attributed**

An Insurer may at any time attribute any of its assets to a Long-Term Insurance Fund that were not previously attributed to such a Long-Term Insurance Fund.

### **7.3.4 Recording of revenues and expenses**

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

## **7.4 Recordkeeping: attribution of assets and liabilities to Long-Term Insurance Fund**

### **7.4.1 Accounting and other records to be maintained**

An Insurer must maintain adequate accounting and other records to identify

- (1) the Contracts of Insurance attributed to a Long-Term Insurance Fund in accordance with PINS 7.2 (Attribution of contracts to a Long-Term Insurance Fund); and
- (2) the assets, liabilities, revenues and expenses attributed to a Long-Term Insurance Fund in accordance with PINS 7.3 (Segregation of assets and liabilities).

## **7.5 Limitation on use of assets in Long-Term Insurance Fund**

### **7.5.1 Application of assets**

An Insurer must ensure that, except as provided in PINS 7.5.2 to 7.5.6, assets that are attributable to a Long-Term Insurance Fund are applied only for the purposes of the business attributed to the Long-Term Insurance Fund.

### **7.5.2 Transfers of assets out of Long-Term Insurance Funds**

An Insurer must ensure that assets attributable to a Long-Term Insurance Fund are not 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 PINS 9.1.3(4)(g) (Requirements for Financial Condition Report) and the transfer is performed within four months of the reference date of the Financial Condition Report that this determination forms part of;
- (b) where the transfer constitutes a payment of dividend or return of capital, in accordance with PINS 7.5.4 (Payment of dividends by Insurer constituting a single Long-Term Insurance Fund);
- (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 Long-Term Insurance Fund and in respect of expenses attributable to the Long-Term Insurance Fund; or
- (e) where the transfer constitutes reattribution of assets attributed to the Long-Term Insurance Fund in error.

### **7.5.3 Assets of Long-Term Insurance Funds not to be distributed**

An Insurer must not make any distribution by way of dividend, or return of capital assets attributable to a Long-Term Insurance Fund, if by doing so that would result in a breach of its obligations under PINS 5 (Capital adequacy requirements).

### **7.5.4 Payment of dividends by Insurer constituting a single Long-Term Insurance Fund**

An Insurer that is deemed to constitute a single Long-Term Insurance Fund may only make a dividend or return of capital where:

- (a) the dividend or return of capital constitutes appropriation of a surplus determined in accordance with PINS 9.1.3(4)(g) (Requirements for Financial Condition Report), and either
- (b) the payment is made within four months of the reference date of the Financial Condition Report determining that surplus and does not cause the total aggregate amount of the dividends or returns of capital made by the Insurer since that reference date to exceed the amount of that surplus; or
- (c) the payment is made more than four months after the reference date of Financial Condition Report determining that surplus and does not cause the total aggregate amount of the dividends or returns of capital made by the Insurer since that reference date to exceed 50% of the amount of that surplus.

### **7.5.5 Assets not to be lent**

An Insurer must not lend or otherwise make available for use for any other purposes of the Insurer, or any purposes of any party related to the Insurer, assets attributable to a Long-Term Insurance Fund.

### **7.5.6 Certain reinsurance-like arrangements prohibited**

An Insurer may not enter into any arrangement, whether or not described as a Contract of Reinsurance, whereby a Long-Term 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 Long-Term Insurance Fund is the cedant.



## **8 Valuation**

### **8.1 Matching assets and liabilities**

#### **8.1.1 Value of Insurer's assets to match its Insurance Liabilities**

- (1) An Insurer must hold supporting assets of a value at least equal to the amount of its Insurance Liabilities.
- (2) Such asset must be of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows from the assets meet the expected cash outflows from the Insurer's Insurance Liabilities as they fall due.

#### **8.1.2 Projecting cash flows - treatment of options**

In determining the expected cash outflows from its Insurance Liabilities for the purposes of PINS 8.1.1, an Insurer must take into account any options that exist in the Insurer's Contracts of Insurance including:

- (a) any unilateral option available to the policyholder to extend a Contract of Insurance; and
- (b) any unilateral right available to the Insurer to either cancel or renew a Contract of Insurance.

#### **8.1.3 Projecting cash flows - Long-Term Insurance Business**

In projecting cash flows in relation to Long-Term Insurance Business for the purposes of PINS 8.1.1, an Insurer carrying on Long-Term Insurance Business must take into account the nature of the projections and the factors relevant to its Long-Term Insurance Business, including:

- (a) expected investment earnings;
- (b) expected reinsurance recoveries;
- (c) mortality and morbidity;
- (d) expenses;
- (e) options and guarantees; and
- (f) persistency.

### **8.2 Recognition and measurement of assets and liabilities**

#### **8.2.1 General provisions**

- (1) An Insurer may:
  - (a) measure the value of an asset at less than the value determined in accordance with this Chapter; and
  - (b) measure the value of a liability at more than the value determined in accordance with this Chapter.



- (2) However, if the AFSA directs an Insurer to measure an asset or a liability in accordance with principles that differ from those specified in this Chapter, the Insurer must measure such assets or liability in accordance with those principles as directed.

### **8.2.2 Basis of accounting**

Save where directed otherwise by the AFSA or where inconsistent with the rules in this Chapter, an Insurer must recognise its assets and liabilities and measure their value in accordance with the IFRS basis of accounting.

### **8.2.3 Methods and assumptions that may be used**

In measuring assets and liabilities, an Insurer must use methods and prudent assumptions that:

- (a) are appropriate to the nature, scale and complexity of the Insurer's business;
- (b) are made using professional judgement, training and experience;
- (c) are made having regard to reasonably available statistics and other information;
- (d) are consistent from year to year and without arbitrary changes;
- (e) include appropriate margins for adverse deviation of relevant factors;
- (f) recognise the distribution of profits or emerging surplus in an appropriate way over the duration of each Contract of Insurance;
- (g) are in accordance with generally accepted actuarial practice; and
- (h) do not reflect the Insurer's own credit rating.

### **8.2.4 Changes in methods and assumptions on which valuations depend**

- (1) Where the valuation of an asset or liability is dependent upon the adoption of assumptions or the adoption of a calculation method, an Insurer must ensure that any change in the assumptions or methods adopted is reflected immediately in the value attributed to the asset or liability concerned.
- (2) The recognition of the effects of changes in assumptions or methods may not be deferred to future reporting periods.

### **8.2.5 Actuarial principles**

The AFSA may specify actuarial principles to be used by an Insurer in measuring assets and liabilities.

### **8.2.6 Derecognising liabilities**

- (1) An Insurer must not derecognise an Insurance Liability (or a part of an Insurance Liability) until the obligation giving rise to the liability expires or is discharged or cancelled.
- (2) To avoid doubt, if reinsurance covering the liability (or part of the liability) is purchased, the liability must not be derecognised unless the purchase results in the discharge or cancellation of the obligation giving rise to the liability.



### **8.2.7 Discount rate**

In calculating the present value of an Insurance Liability, the discount rate must be a prudent estimate of the yield expected to be earned by assets of the Insurer that are sufficient in value and appropriate in nature to cover the provisions for the liability being discounted.

### **8.2.8 Valuation of expected future payments**

Where this Chapter requires an Insurer to recognise as a liability the value of expected future payments, that liability must be measured as the net present value of those expected future payments.

### **8.2.9 Valuation of expected future receipts**

Where this Chapter requires an Insurer carrying on General Insurance Business to recognise as an asset the value of expected future receipts, that asset must be measured as the net present value of those expected future receipts.

## **8.3 Treatment of particular assets and liabilities - General Insurance Business**

### **8.3.1 Treatment of premium liability**

An Insurer carrying on General Insurance Business must recognise as a liability the value of future claims payments and associated direct and indirect settlement costs, arising from future events insured under policies that are in force as at the Solvency Reference Date (premium liability).

### **8.3.2 Treatment of value of future claims payments**

An Insurer carrying on General Insurance Business must recognise as a liability the value of future claims payments and associated direct and indirect settlement costs, arising from insured events that have occurred as at the Solvency Reference Date.

### **8.3.3 Treatment of expected recoveries**

An Insurer carrying on General Insurance Business must recognise as an asset the value of reinsurance and other recoveries expected to be received in respect of claims referred to in PINS 8.3.1 (Treatment of premium liability) and PINS 8.3.2 (Treatment of value of future claims payments).

## **8.4 Treatment of particular assets and liabilities - Long-Term Insurance**

### **8.4.1 Treatment of policy benefits due before Solvency Reference Date**

An Insurer carrying on Long-Term Insurance Business must recognise as a liability the amount of policy benefits that are due for payment on or before the Solvency Reference Date.

### **8.4.2 Treatment of net value of future policy benefits**

An Insurer carrying on Long-Term Insurance Business must recognise as a liability the net value of future policy benefits under policies that are in force as at the Solvency Reference Date, taking into account all prospective liabilities as determined by the policy conditions for each existing contract, and taking credit for premiums payable after the Solvency Reference Date.



#### 8.4.3 Measuring net value of policy benefits as liability

In measuring the liability associated with future policy benefits, an Insurer carrying on Long-Term Insurance Business must:

- (a) use actuarial principles;
- (b) provide for all liabilities based on assumptions that meet the general requirements for prudent assumptions in PINS 8.2.3 (Methods and assumptions that may be used) including appropriate margins for adverse deviation of relevant factors that are sufficient to ensure that there is no significant foreseeable risk that liabilities to policyholders for long-term insurance contracts will not be met as they fall due; and
- (c) take into account:
  - (i) all guaranteed policy benefits, including guaranteed surrender values;
  - (ii) vested, declared or allotted bonuses to which policyholders are already either collectively or individually contractually entitled;
  - (iii) all options available to the policyholder under the terms of the contract;
  - (iv) discretionary charges and deductions from policy benefits, in so far as they do not exceed the reasonable expectations of policyholders;
  - (v) expenses, including commissions; and
  - (vi) any rights under contracts of reinsurance in respect of Long-Term Insurance Business.

#### 8.4.4 Negative values for reserves—Long-Term Insurance

An Insurer carrying on Long-Term Insurance Business must not value its mathematical reserves for a Long-Term Insurance Contract at less than zero unless:

- (a) the calculation is based on assumptions that meet the general requirements for prudent assumptions in PINS 8.2.3 (Methods and assumptions that may be used);
- (b) the contract does not have a guaranteed surrender value at the actuarial valuation date; and
- (c) the total mathematical reserves established by the Insurer have a value of at least:
  - (i) if the Insurer's Long-Term Insurance Contracts include linked long-term contracts—the sum of the surrender values of all its linked long-term contracts at the actuarial valuation date; and
  - (ii) in any other case—zero.



## 9 Actuarial reporting

### 9.1 Insurers that are required to have Approved Actuaries

#### 9.1.1 Application

PINS 9.1.2 to 9.1.5 apply to an Insurer that is required to have an Approved Actuary.

**Note:** For the Insurers that are required to have an Approved Actuary, see PINS 2.2.2 (Obligation to appoint Approved Individuals to certain roles).

#### 9.1.2 Financial Condition Reports

- (1) The Approved Actuary for the Insurer must annually carry out an actuarial investigation to enable him or her to prepare a report about the Insurer's financial condition (a Financial Condition Report).
- (2) The Insurer must ensure that the Approved Actuary is given appropriate access (that is, such access as the actuary reasonably believes to be necessary to prepare the report) to:
  - (a) all relevant data, information, reports and staff of the Insurer; and
  - (b) so far as possible, any contractor of the Insurer.
- (3) The Approved Actuary must prepare, sign and date the report.
- (4) The Approved Actuary must give the report to the Insurer sufficiently in advance of the Insurer's next annual return date to allow the Insurer's Governing Body a reasonable opportunity to consider and use it in preparing the Insurer's next annual prudential return.
- (5) The Insurer's Governing Body must give a copy of the report to the AFSA on or before the Insurer's next annual return date.
- (6) In this rule:

next annual return date for an Insurer means the date on which it must give its next annual prudential return to the AFSA under PINS 13.1.1 (Obligation to prepare prudential returns).

#### 9.1.3 Requirements for Financial Condition Report

- (1) A Financial Condition Report must set out an objective assessment of the overall financial condition of the Insurer concerned.
- (2) For an Insurer conducting Long-Term Insurance Business, such a report must include an objective assessment of the financial condition of each Long-Term Insurance Fund established by the Insurer.
- (3) In preparing a Financial Condition Report, an Approved Actuary must act in accordance with the relevant professional actuarial standards, and must use appropriate actuarial valuation principles, techniques and methodologies.
- (4) The Approved Actuary must ensure that the report covers at least the following matters (so far as relevant):



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (a) an overview of the Insurer's business;
  - (b) an assessment of the Insurer's recent experience and profitability, including the experience during the year ending on the valuation date;
  - (c) an assessment of the value of the Insurer's Insurance Liabilities that fall within PINS 8.4.1 (Treatment of policy benefits due before Solvency Reference Date) and PINS 8.4.2 (Treatment of net value of future policy benefits);
  - (d) for an Insurer to which subrule (5) applies, an assessment of the value of the Insurer's Insurance Liabilities that fall within PINS 8.3.1 (Treatment of premium liability) and PINS 8.3.2 (Treatment of value of future claims payments), using the relevant professional actuarial standards and appropriate actuarial valuation principles, techniques and methodologies;
  - (e) an assessment of whether the Insurer's past estimates of the liabilities referred to in paragraphs (c) and (d) were adequate, especially if there has been a change in the assumptions or the valuation method from that adopted at the previous valuation;
  - (f) an explanation, in relation to the valuation of those liabilities, of:
    - (i) the assumptions used in the valuation process;
    - (ii) the adequacy and appropriateness of data made available to the Approved Actuary by the Insurer;
    - (iii) how the Approved Actuary assessed the reliability of the data;
    - (iv) the model or models used by the Approved Actuary;
    - (v) the approach taken to estimate the variability of the estimate; and
    - (vi) the sensitivity analyses undertaken;
  - (g) a determination of the value of the surplus in each Long-Term Insurance Fund established by the Insurer;
  - (h) an assessment of asset and liability management, including the Insurer's investment strategy;
  - (i) an assessment of the Insurer's current and future capital adequacy and a discussion of its approach to capital management;
  - (j) an assessment of the Insurer's pricing, including the adequacy of its premiums;
  - (k) an assessment of the suitability and adequacy of the Insurer's reinsurance arrangements, including the documentation of those arrangements and the existence and impact of any limited risk transfer arrangements;
  - (l) an assessment of the suitability and adequacy of the Insurer's Risk Management Policy.
- (5) This subrule applies to an Insurer if it engages in General Insurance Business and:





## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (a) more than 15% of its gross outstanding liabilities are attributable to Contracts of Insurance for General Insurance Business in General Insurance Categories 1 (Accident) or 2 (Sickness); or
  - (b) more than 20% of its gross outstanding liabilities are attributable to Contracts of Insurance for General Insurance Business in General Insurance Categories 10 (Motor vehicle liability), 11 (Aircraft liability), 12 (Liability of ships), 13 (General liability), 14 (Credit) or 15 (Suretyship).
- (6) The Approved Actuary:
- (a) must consider the implications and outlook for the Insurer of each matter mentioned in subrule (4); and
  - (b) if the implications for the Insurer are adverse, must make recommendations to address the problem.
- (7) A Financial Condition Report for a Branch must be prepared in relation to the Insurer's AIFC operations but must take into account the financial position of the head office.

### 9.1.4 AFSA may direct more frequent Financial Condition Reports

- (1) The AFSA may direct an Insurer that the Insurer's Approved Actuary is to prepare a Financial Condition Report more frequently than PINS 9.1.2 (Financial Condition Reports) requires if the AFSA considers it necessary or desirable, for the prudential supervision of the Insurer, to receive such a report more frequently.
- (2) An Insurer must comply with a direction under subrule (1).

### 9.1.5 AFSA may direct special review

- (1) The AFSA may direct an Insurer that the Insurer's Approved Actuary:
  - (a) is to carry out a review of matters specified by the AFSA relating to the Insurer's operations, risk management or financial affairs; and
  - (b) is to prepare a report on the basis of that review.
- (2) The Insurer must bear the cost of the review.
- (3) An Insurer must comply with a direction under subrule (1).
- (4) The Insurer's Approved Actuary must give the report simultaneously to the AFSA and the Insurer within 3 months of the date of the direction, unless the AFSA grants an extension of time in writing.

## 9.2 Insurers that are not required to have an Approved Actuary

### 9.2.1 Application

PINS 9.2.2 to 9.2.5 apply to an Insurer that is not required to have an Approved Actuary.

**Note:** For the Insurers that are required to have an Approved Actuary, see PINS 2.2.2 (Mandatory appointments).



**9.2.2 Actuarial reporting requirements for general insurance business**

The Governing Body of an Insurer to which this Rule applies:

- (a) must consider annually whether to commission an independent actuary to report on its business; but
- (b) must commission such a report at least once every 3 years.

**9.2.3 Qualifications of independent actuary**

- (1) If an Insurer decides to commission an actuarial report, it must appoint, to prepare the report, an individual who:
  - (a) has the qualifications set out in subrule (2); and
  - (b) satisfies the criteria set out in subrule (3).
- (2) The qualifications are:
  - (a) that he or she has appropriate formal qualifications and is a member of a recognised professional body;
  - (b) that he or she has at least 5 years' relevant experience in providing actuarial services to Insurers, either in the AIFC or in other jurisdictions; and
  - (c) that the experience is sufficiently recent to ensure that he or she is familiar with current issues in the provision of such services to Insurers.
- (3) The criteria are the following:
  - (a) that he or she does not exercise any Controlled Function or Designated Function for the Insurer or a related body corporate (except a related body corporate that is a subsidiary of the Insurer);
  - (b) that he or she is not:
    - (i) an auditor (under section 136(1) of the Companies Regulations for the Insurer;
    - (ii) an Employee or Director of an entity of which that auditor is an Employee or Director; nor
    - (iii) a partner of that auditor.

**9.2.4 Actuarial reports**

- (1) The actuary who prepares an actuarial report for the purposes of PINS 9.2.2 must sign it.
- (2) The Insurer concerned must ensure that the actuary is given appropriate access (that is, such access as the actuary reasonably believes to be necessary to prepare the report) to:
  - (a) all relevant data, information, reports and staff of the Insurer; and



- (b) so far as possible, any contractor of the Insurer.
- (3) The report must give details, for each category of General Insurance Business that the Insurer conducts, of the following matters:
  - (a) recent trends in the business;
  - (b) the actuary's estimate of the value of the Insurance Liabilities and assets arising in respect of those liabilities, determined in accordance with PINS 8 (Valuation);
  - (c) if the assumptions or the valuation method used for that estimate differ from those adopted for the previous valuation of those assets and liabilities, the effect, as at the date on which the actuary signs the report, of those changes on the value of those liabilities and assets;
  - (d) the adequacy and appropriateness of the data that the Insurer made available to the actuary;
  - (e) the procedures that the actuary used to assess the reliability of that data;
  - (f) the model or models that the actuary used;
  - (g) the assumptions that the actuary used in the valuation process (including, without limitation, assumptions made as to inflation and discount rates, future expense rates and, if relevant, future investment income);
  - (h) how the actuary estimated the variability of the estimate;
  - (i) the nature and findings of sensitivity analyses that the actuary undertook.
- (4) The Insurer's Governing Body must give a copy of the signed report to the AFSA on or before the date on which the Insurer must give its next annual prudential return to the AFSA under PINS 13.1.1 (Obligation to prepare prudential returns).

### 9.2.5 Additional powers of the AFSA

- (1) If at any time the AFSA believes it is necessary that an Insurer to which this Rule applies should obtain an actuarial report relating to the Insurer's operations, risk management or financial affairs, it may direct the Insurer to do so at the Insurer's expense.
- (2) The Insurer:
  - (a) must appoint, to prepare the report, an actuary who has the qualifications, and satisfies the criteria, in PINS 9.2.3 (Qualifications of independent actuary); and
  - (b) must notify the AFSA of the name, qualifications and experience of the actuary appointed.
- (3) If the AFSA is not satisfied that the actuary appointed by the Insurer has those qualifications or satisfies those criteria, the AFSA may direct the Insurer to appoint an actuary nominated by the AFSA to prepare the report.
- (4) The Insurer must submit the report to the AFSA within 3 months of the direction, unless the AFSA allows an extension of time in writing.



### 10 Insurers that are members of Groups

#### 10.1.1 Application

PINS 10 applies to every Insurer that is a member of a Group.

#### Guidance

Group is defined in the Glossary as a group of entities which includes an entity (the 'first entity') and: (a) any parent of the first entity; and (b) any subsidiaries (direct or indirect) of the parent or parents in (a) or the first entity.

#### 10.1.2 Purpose

PINS 10 imposes additional requirements on an Insurer that is a member of a Group to ensure that:

- (a) the Insurer is capitalised adequately to protect itself against the risks arising from its membership of the Group, and is otherwise protected against those risks;
- (b) it can be properly supervised by the AFSA;
- (c) it provides the AFSA with information about the structure and financial position of the Group; and
- (d) it assesses the effect of, and notifies the AFSA of, certain transactions within the Group.

#### 10.1.3 Group structure

- (1) The structure of the Insurer's Group must be transparent and must not hinder the effective supervision of the Insurer.
- (2) The structure and risk profile of the Group must not hinder the Insurer's stability and solvency.
- (3) The overall governance, high-level controls and reporting lines within the Group must be clear so far as they affect the Insurer.
- (4) An Insurer must not be subject to material control or influence from another Group member that is exercised through informal or undocumented channels.
- (5) There must be clear and certain protocols for the performance of functions for the Insurer at the Group level.

#### 10.1.4 Direction regarding capital resources

- (1) An Insurer must hold such additional capital as the AFSA may direct (above the amount of capital that the Insurer would otherwise be required by these rules to hold) to cover risks arising because of its Group membership.
- (2) If the AFSA directs an Insurer to hold additional capital, the Insurer must increase its capital by the amount directed by the AFSA within such period as the AFSA may specify.
- (3) A direction under subrule (1) may specify that the additional capital is to take a particular form.



**10.1.5 Intra-group transactions**

- (1) An Insurer must ensure that any material transaction with another member of its Group:
  - (a) is entered into on an 'arm's-length' basis; and
  - (b) is on fair and reasonable terms.
- (2) The Insurer must ensure that its books, accounts and records clearly and accurately disclose the nature and details of the transaction, including any accounting information necessary to demonstrate that the terms were fair and reasonable.

**10.1.6 Certain transactions to be inquired into by Insurer's Governing Body**

- (1) An AIFC-Incorporated Insurer must not enter into a transaction of a kind described in subrule (2) unless its Governing Body is satisfied, after reasonable inquiry, that the transaction does not adversely affect the interests of policyholders.
- (2) The kinds of transaction are the following:
  - (a) an intra-group transaction (including a sale, purchase, exchange, loan, guarantee or investment) the amount of which is 3% (or more) of the Insurer's Eligible Capital;
  - (b) a loan to a person not related to the Insurer, if there is an agreement or understanding that the proceeds of the loan, or a substantial part of those proceeds, will be used to make loans to purchase assets of, or make investments in, another Group member, and the amount of the loan is 3% (or more) of the Insurer's Eligible Capital;
  - (c) an intra-group reinsurance agreement, or a modification to such an agreement, if the reinsurance premium or change in the Insurer's liabilities is 5% (or more) of the Insurer's Eligible Capital;
  - (d) a reinsurance agreement, or a modification to such an agreement, involving the transfer of assets from the Insurer to a person not related to it, if:
    - (i) there is an agreement or understanding between the Insurer and that person that any part of the assets will be transferred to one or more other persons related to the Insurer; and
    - (ii) the reinsurance premium or change in the Insurer's liabilities is 5% (or more) of the Insurer's Eligible Capital;
  - (e) an intra-group management agreement, service contract or cost-sharing arrangement.
- (3) A reference in subrule (2) to an Insurer's Eligible Capital is a reference to that capital as at the end of the last standard quarter before the relevant transaction.
- (4) An Insurer's Governing Body may delegate its responsibility under subrule (1) to the Insurer's senior management if the Insurer's Risk Management Strategy and internal control framework permit the Governing Body to do so.
- (5) In this rule:



loan includes the extension of credit.

standard quarter means each 3-month period ending on 31 March, 30 June, 30 September and 31 December.

### 10.1.7 Specific obligations of Group members

- (1) If an Insurer is a member of a Group, the Insurer's senior management should monitor any functions performed for the Insurer at the Group level.
- (2) The Insurer's senior management should establish and maintain procedures and controls to identify and monitor the effect on the Insurer of its relationship with the other members of the Group and the activities of those other members.
- (3) The procedures and controls should include procedures to monitor:
  - (a) changes in relationships between Group members;
  - (b) changes in the activities of Group members;
  - (c) conflicts of interest arising within the Group;
  - (d) events in the Group, particularly those that might affect the Insurer's own regulatory compliance (for example, any failure of control or compliance in another Group member);
  - (e) the effect on it of:
    - (i) its relationship with the other members of the Group;
    - (ii) its membership in the Group; and
    - (iii) the activities of the other members of the Group; and
  - (f) the Group's compliance with:
    - (i) the supervision requirements applicable to it, including systems for the production of relevant data; and
    - (ii) Group reporting requirements.
- (4) The Insurer should have procedures to insulate it, so far as practicable, from the adverse effects of other Group activities (for example, transfer pricing or fronting) or Group events that might expose the Insurer to risk.
- (5) The Insurer's senior management should take reasonable steps to ensure that:
  - (a) other Group members are aware of the Insurer's management and reporting obligations in relation to Group risk;
  - (b) Group capital and Group risk reporting requirements are complied with; and
  - (c) information about the Group provided to the AFSA is accurate, and is provided in a timely manner.





## **11 Transfer of insurance business**

### **11.1 Introduction**

#### **11.1.1 Application**

PIN 11 applies to every AIFC-Incorporated Insurer.

#### **11.1.2 AIFC Insurance Business Transfer Scheme - definition**

An AIFC Insurance Business Transfer Scheme is a scheme for transfer of the whole or part of the Insurance Business undertaken by an AIFC-Incorporated Insurer.

### **11.2 Sanction Order**

#### **11.2.1 Requirement for order of the AIFC Court**

No AIFC Insurance Business Transfer Scheme is to have effect unless an order sanctioning the scheme (a Sanction Order) has been made by the AIFC Court under section 112 of the FSFR.

#### **11.2.2 Application for a Sanction Order**

An application for a Sanction Order must be made by:

- (1) whichever of the transferor or transferee concerned is an AIFC-Incorporated Insurer; or
- (2) by both transferor and transferee, if both are AIFC-Incorporated Insurers.

#### **11.2.3 Requirements on the applicant**

Subject to such directions as the AFSA may give pursuant to section 112(2) of the FSFR, the applicant for a Sanction Order must ensure that:

- (a) the application for a Sanction Order is accompanied by
  - (i) a written report on the terms of the scheme (the Scheme Report) that complies with rule 11.3.2; and
  - (ii) a written summary of the scheme (the Scheme Summary) that complies with rule 11.3.3;
- (b) notice of the application for the Sanction Order is given to every policyholder resident in Kazakhstan who is affected by the scheme, in accordance with rule 11.4.1; and
- (c) notice of the application for the Sanction Order is published in accordance with rule 11.4.2.

### **11.3 The Scheme Report**

#### **11.3.1 The Skilled Person**

A Scheme Report may only be made by a person (the Skilled Person):

- (a) appearing to the AFSA to have the skills necessary to enable him to make a proper report; and





- (b) nominated or approved for the purpose, in writing, by the AFSA.

### **11.3.2 The Scheme Report**

A Scheme Report must

- (a) be in a form approved by the AFSA;
- (b) include a reasoned opinion as to whether or not the scheme (if it is sanctioned by the Court) is expected to have any material adverse impact on any of the policyholders of the transferor or the transferee; and
- (c) include a reasoned conclusion as to whether (if the scheme is sanctioned by the Court) each AIFC-Incorporated Insurer concerned with the scheme (whether as transferee or as transferor) will, taking the scheme into account, comply with the requirements of PINS.

### **11.3.3 The Scheme Summary**

The Scheme Summary must

- (a) contain sufficient information, in language that is clear, fair and not misleading, to enable policyholders to understand how they may be affected if the scheme is sanctioned by the Court;
- (b) be prepared or approved by the Skilled Person; and
- (c) be approved by the AFSA.

## **11.4 Notice requirements**

### **11.4.1 Notice given to policyholders**

- (1) The notice given to policyholders must include:
  - (a) Details of the place or places and times at which and the period during which an affected policyholder may obtain a copy of the scheme and any associated documentation; and
  - (b) the Scheme Summary referred to in rule 11.8.
- (2) The period in (1) must be not less than 30 days, or such other period as the AFSA may direct in writing.

### **11.4.2 Publication of notice**

- (1) The applicant must publish notice of the application for the Sanction Order.
- (2) The notice in (1) must
  - (a) be approved by the AFSA before publication;
  - (b) be published not less than three months (or such other period as the AFSA may direct in writing) before the hearing at which the Court will be asked to sanction the scheme; and



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (c) be published in two national papers in Kazakhstan, or in such other publications as the AFSA may direct in writing.



**12 Insurers in run-off**

**12.1 Application and purpose**

**12.1.1 Application**

PINS 12 applies to:

- (a) every AIFC-Incorporated Insurer; and
- (b) every Branch in respect of its AIFC Insurance Business operations.

**12.1.2 Meanings of terms relating to run-off**

In this Chapter:

- (a) an Insurer in Run-off means an Insurer that has ceased to effect Contracts of Insurance in respect of the whole or a category of its Insurance Business (or, in the case of a Branch, the whole or a category of its AIFC Insurance Business), and a Long-Term Insurance Fund in run-off is construed accordingly; and
- (b) going into run-off or placing Insurance Business into run-off means ceasing to effect Contracts of Insurance, and placing a Long-Term Insurance Fund into run-off is construed accordingly.

**12.1.3 Compliance with PINS 15 by Insurer directed to go into run-off**

An Insurer in Run-off by virtue of a decision or notice of the AFSA to the effect that the Insurer is to cease to effect Contracts of Insurance shall comply with PINS 12 except to the extent the AFSA acting under its powers in the FSFR directs otherwise.

**12.1.4 Certain contracts to be disregarded**

For the purposes of this Chapter, in determining whether an Insurer is effecting Contracts of Insurance or has ceased to effect Contracts of Insurance, including Contracts of Insurance effected through a Long-Term Insurance Fund, Contracts of Insurance effected under a term of an existing Contract of Insurance will be ignored unless the AFSA decides otherwise in respect of any particular contract.

**12.2 Insurers ceasing to effect Contracts of Insurance in a category**

**12.2.1 Application**

PINS 12.2.2 (Insurers to give notice of decision to cease business) and PINS 12.2.3 (Insurers in run-off not to effect certain contracts) apply to an Insurer that ceases or decides to cease to effect new Contracts of Insurance or to renew Contracts of Insurance:

- (a) in a category in which the Insurer has previously effected Insurance Business; or
- (b) in respect of a Long-Term Insurance Fund, in a category in which the Insurer has previously effected Insurance Business through that Long-Term Insurance Fund.



### 12.2.2 Insurers to give notice of decision to cease business

An Insurer to which this Rule applies must, within 28 days of a decision to cease to effect new Contracts of Insurance in a category, notify the AFSA of its decision, in a notice specifying the following details:

- (a) the effective date of the decision to cease effecting Contracts of Insurance;
- (b) the category to which the decision relates; and
- (c) where relevant, the Long-Term Insurance Fund to which the decision relates.

### 12.2.3 Insurers in run-off not to effect certain contracts

- (1) An Insurer who has provided a notice to the AFSA in accordance with PINS 12.2.2 must not effect any Contracts of Insurance in that category without the written permission of the AFSA.
- (2) Where the notice referred to in PINS 12.2.2 relates to a Long-Term Insurance Fund of the Insurer, the restriction set out in this rule applies only to that Long-Term Insurance Fund.

## 12.3 Run-off plans

### 12.3.1 Application

PINS 12.3.2 to 12.3.7 apply to:

- (a) Insurers that go into, or are in, run-off, or that maintain Long-Term Insurance Funds that are in run-off;
- (b) Insurers that make a decision to go into run-off or to place a Long-Term Insurance Fund into run-off; and
- (c) Insurers whose Licence to effect Contracts of Insurance in respect of their entire Insurance Business or in respect of the entire business of a Long-Term Insurance Fund is withdrawn by the AFSA.

### 12.3.2 Insurer voluntarily in run-off to provide run-off plan

If an Insurer decides to go into run-off or to place a Long-Term Insurance Fund into run-off, the Insurer must, at the same time as the notice referred to in PINS 12.2.2, provide the AFSA with a written run-off plan in respect of the Insurance Business being placed into run-off.

### 12.3.3 Insurer directed to go into run-off to provide run-off plan

If the AFSA withdraws an Insurer's Licence to effect Contracts of Insurance in respect of the Insurer's whole, or a category of, Insurance Business or the whole, or a category of, Insurance Business of a Long-Term Insurance Fund, the Insurer must, within 28 calendar days after the day the Insurer is given the written notice of withdrawal of its Licence (or, if later, the period specified in that notice), provide the AFSA with a written run-off plan in respect of that Insurance Business.



### 12.3.4 What run-off plans must cover

An Insurer must ensure a run-off plan provided to the AFSA in accordance with this Part covers the period until all liabilities to policyholders relating to the Insurance Business in run-off are met and includes:

- (a) an explanation of how, or the extent to which, all liabilities to policyholders will be met in full as they fall due;
- (b) an explanation of how, or the extent to which, the Insurer will maintain its compliance with the requirements of these rules until such time as all liabilities to policyholders are met;
- (c) a description, appropriate to the scale and complexity of the Insurer's business, of the Insurer's business strategy;
- (d) financial projections showing, in a form appropriate to the scale and complexity of the Insurer's operations, the forecast financial position of the Insurer as at the end of each reporting period during the period to which the run-off plan relates;
- (e) an assessment of the sensitivity of the financial position of the Insurer to stress arising from realistic scenarios relevant to the circumstances of the Insurer;
- (f) details of the planned run-off reinsurance protections and the extent to which the planned reinsurance protections match the run-off realistic scenarios;
- (g) details of the claims handling and reserving strategy; and
- (h) details of the cost of the management of the run-off.

### 12.3.5 Application of run-off plan to fund

Where an Insurer's Insurance Business in run-off relates to a Long-Term Insurance Fund of that Insurer, the run-off plan must deal with the matters set out in PINS 12.3.4 so far as they relate to that Long-Term Insurance Fund.

### 12.3.6 Insurer to monitor run-off plan etc

- (1) This rule applies to an Insurer that has given a run-off plan to the AFSA.
- (2) The Insurer must monitor the matters provided in the run-off plan.
- (3) If there is a significant departure from the run-off plan, the Insurer must tell the AFSA immediately, but by no later than the second business day after the day the departure happens or starts.

### 12.3.7 AFSA may direct Insurer to amend run-off plan

- (1) Where an Insurer has notified a matter to the AFSA in accordance with PINS 12.3.6, the AFSA may by notice in writing require the Insurer to provide an amended run-off plan.
- (2) The Insurer must provide an amended run-off plan within 28 days of receipt of the notice, unless the notice specifies a longer period.



## **12.4 Provisions in respect of contracts relating to Insurance Business in run-off**

### **12.4.1 Application**

PINS 12.4.2 (Insurer with business in run-off to notify AFSA of certain contracts) applies only to an Insurer that:

- (a) is in run-off as regards its entire Insurance Business or the entire Insurance Business of a Long-Term Insurance Fund;
- (b) has provided a notice to the AFSA in accordance with PINS 12.2.2 (Insurers to give notice of decision to cease business) in respect of its entire Insurance Business or the entire Insurance Business of a Long-Term Insurance Fund; or
- (c) has received a written notice from the AFSA withdrawing the Insurer's Licence to effect Contracts of Insurance in respect of its entire Insurance Business or the entire Insurance Business of a Long-Term Insurance Fund.

### **12.4.2 Insurer with business in run-off to notify AFSA of certain contracts**

- (1) An Insurer to which this rule applies must:
  - (a) within 10 business days after the day its Insurance Business enters into run-off, tell the AFSA about the existence and principal features of any notifiable contract that existed at the time the business entered into run-off; and
  - (b) within 10 business days after the day it enters into a notifiable contract in relation to its Insurance Business in runoff, tell the AFSA about the existence and principal features of the contract.
- (2) To remove any doubt, subrule (1) (b) applies whether or not the Insurance Business is conducted through a Long-Term Insurance Fund that is in run-off.
- (3) In this rule:

notifiable contract means:

  - (a) a contract with a person related to the Insurer, other than a Contract of Insurance effected by the Insurer before going into run-off;
  - (b) a contract with any person relating to the management of all or any of the Insurance Business in run-off;
  - (c) a contract with any person for reinsurance of all or any of the Insurance Business in run-off; or
  - (d) any other contract with a person mentioned in paragraph (b) or (c) or a person related to such a person.

## **12.5 Limitations on distributions by AIFC-incorporated Insurers in run-off**

### **12.5.1 Insurer in run-off not to make distributions**

- (1) An AIFC-Incorporated Insurer in run-off must not make any distribution to shareholders or members of the Insurer, whether by way of dividends or otherwise, or any payment of



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

management fees (other than fees payable under a contract notified to the AFSA in accordance with PINS 12.4.2), without the written consent of the AFSA.

- (2) Any such distribution or return of capital or payment of management fees must be made within the period, if any, specified in the written notice of consent given by the AFSA.



**13 Prudential returns**

**13.1.1 Obligation to prepare prudential returns**

- (1) An Insurer must prepare and submit to the AFSA the annual, biannual and quarterly prudential returns set out in Schedule 6 (Prudential returns by Insurers).
- (2) The AFSA may, by notice given to an AIFC Insurer require the AIFC Insurer to prepare additional prudential returns

**13.1.2 Deadlines for provision of returns**

- (1) An Insurer must give an annual prudential return to the AFSA within 4 months after the day the relevant financial year of the Insurer ends.
- (2) An Insurer must give a biannual prudential return to the AFSA within 1 month after the day the relevant standard biannual period ends.
- (3) An Insurer must give a quarterly prudential return to the AFSA within 1 month after the day the relevant standard quarter ends.
- (4) In this rule:
  - (a) standard biannual period means the 6-month period ending on 30 June or 31 December; and
  - (b) standard quarter means the 3-month period ending on 31 March, 30 June, 30 September or 31 December.

**13.1.3 External audit opinion to accompany**

When an Insurer submits its annual prudential returns to the AFSA, it must also provide an external audit opinion to accompany those prudential returns.





### 14 Captive Insurers

#### 14.1 Introduction

##### 14.1.1 Definition of Captive Insurer

A Captive Insurer is an Authorised Firm with a Licence to carry on Insurance Business as a Class 1, Class 2 or Class 3 Captive Insurer.

##### 14.1.1-1. Classification of Captive Insurer

- (1) A Class 1 Captive Insurer is an AIFC Captive Insurer that is permitted under the conditions of its authorisation to effect or carry out Contracts of Insurance only for risks related to or arising out of the business or operations of the group to which the Insurer belongs.
- (2) A Class 2 Captive Insurer is an AIFC Captive Insurer that is permitted under the conditions of its authorisation to obtain no more than 20% of its gross written premium from third-party risks arising from business or operations that are closely linked to the business or operations of the group to which the Insurer belongs.
- (3) A Class 3 Captive Insurer is an AIFC Captive Insurer that:
  - (a) is permitted under the conditions of its authorisation to effect or carry out Contracts of Insurance only for risks related to or arising out of the business or operations of persons who engage in similar, related or common:
    - i. businesses; or
    - ii. activities; or
    - iii. trade; or
    - iv. services; or
    - v. operations; and
  - (b) is owned by the persons mentioned in paragraph (i) or by a body corporate of which all such persons are members such as group captives.

##### 14.1.2 Definition of Captive Insurance Business

- (1) Captive Insurance Business is the business of Effecting or Carrying out Contracts of Insurance as a Class 1, Class 2 or Class 3 Captive Insurer.
- (2) General Captive Insurance Business is Captive Insurance Business in relation to General Insurance Contracts.
- (3) Long-Term Captive Insurance Business is Captive Insurance Business in relation to Long-Term Insurance Contracts.

##### 14.1.3 Captive Insurer to be incorporated in the AIFC

- (1) Only an Authorised Firm which is incorporated under the laws of the AIFC may apply to the AFSA for a Licence to conduct Captive Insurance Business.
- (2) A Captive Insurer may either be self-managed or managed by an Insurance manager authorised by AFSA.



### 14.2 Protected Cell Companies

#### 14.2.1 Captive Insurer may be a Protected Cell Company

- (1) An Authorised Firm which is a Protected Cell Company (PCC) incorporated under the Companies Regulations may apply to the AFSA for a Licence to conduct Captive Insurance Business.
- (2) A Protected Cell Company may not otherwise carry on Insurance Business.

#### 14.2.2 Captive insurers that are PCCs not to create cells without consent

A Captive Insurer that is a Protected Cell Company must not create a Cell without the written consent of the AFSA.

#### 14.2.3 Captive insurers that are PCCs to conduct Captive Insurance Business only through cells

A Captive Insurer that is a Protected Cell Company must ensure that, when it conducts Captive Insurance Business, each Contract of Insurance is attributable to a particular Cell of the Captive Insurer.

#### 14.2.4 Captive insurers that are PCCs not to conduct General and Long-Term Captive Insurance Business through same Cell

A Captive Insurer that is a Protected Cell Company must not conduct both General Captive Insurance Business and Long-Term Captive Insurance Business through the same Cell.

### 14.3 Application of PINS to Captive Insurers

#### 14.3.1 Application of PINS 2 (Systems and Controls)

- (1) A Captive Insurer must comply with the requirements of PINS 2 (Systems and Controls) in full subject to (2).
- (2) A Captive Insurer may appoint an Insurance Manager authorised by AFSA to perform the Controlled Function of Senior Executive Officer provided that such Employee is an Approved Individual and the Designated Function of Money Laundering Reporting Officer.

#### 14.3.2 Application of PINS 3 (Risk Management Strategy).

A Captive Insurer must comply with PIN 3 (Risk Management Strategy) in full.

#### 14.3.3 Application of PINS 4 (Own Risk and Solvency Assessment (ORSA)).

A Captive Insurer must comply with PINS 4 (Own Risk and Solvency Assessment (ORSA)) in full.

#### 14.3.4 Application of PINS 5 (Capital adequacy requirements)

A Captive Insurer must comply with the requirements of PINS 5 (Capital adequacy requirements) in full, subject to the rules in PINS 14.4 (Capital adequacy requirements for Captive Insurers).



**14.3.5 Application of PINS 6 (Investment)**

A Captive Insurer must comply with PINS 6 (Investment) in full.

**14.3.6 Application of PINS 7 (Segregation of Long-Term Insurance assets and liabilities)**

A Captive Insurer carrying on Long-Term Captive Insurance Business must comply with PINS 7 (Segregation of Long-Term Insurance assets and liabilities) in full.

**14.3.7 Application of PINS 8 (Valuation)**

A Captive Insurer must comply with PINS 8 (Valuation) in full.

**14.3.8 Application of PINS 9 (Actuarial Reporting)**

A Captive Insurer must comply with PINS 9 (Actuarial reporting) in full.

**14.3.9 Application of PINS 10 (Insurers that are members of Groups)**

A Captive Insurer must comply with PINS 10 (Insurers that are members of Groups) in full.

**14.3.10 Application of PINS 11 (Transfers of Business)**

A Captive Insurer must comply with PINS 11 (Transfer of insurance business) in full.

**14.3.11 Application of PINS 12 (Insurers in run-off)**

A Captive Insurer must comply with PINS 12 (Insurers in run-off) in full.

**14.3.12 Application of PINS 13 (Prudential Returns)**

- (1) A Captive Insurer must comply with PINS 13 (Prudential returns) in full.
- (2) Unless required otherwise by AFSA in writing, Class 1 Captive Insurer may submit Prudential Returns semi-annually instead of quarterly as stated in Schedule 6.

**14.4 Capital adequacy requirements for Captive Insurers**

**14.4.1 Minimum Capital Requirement (MCR) for a Captive Insurer**

- (1) For the purposes of Schedule 4 of PINS, the Capital Floor for a Captive Insurer is the highest of the following:
  - (a) the Base Capital Requirement;
  - (b) the Premium Risk Component; or
  - (c) the Technical Provision Risk Component.
- (2) Base Capital Requirement (BCR) for a Captive Insurer is
  - (a) US\$100,000 for a Class 1 Captive Insurer;
  - (b) US\$200,000 for a Class 2 Captive Insurer;
  - (c) US\$300,000 for a Class 3 Captive Insurer.



(3) Premium Risk Component for a Captive Insurer

The Premium Risk Component for Class 1, Class 2 or Class 3 Captive Insurers conducting general insurance business or life insurance business is the amount calculated in accordance with the following formula:

[18% × firm's net written premium up to US\$ 5 million]

+

[16% × firm's net written premium in excess of US\$ 5 million]

(4) Technical Provision Risk Component for a Captive Insurer

(a) The Technical Provision Risk Component for Class 1, Class 2 or Class 3 Captive Insurers conducting general insurance business is the amount calculated in accordance with the following formula:

[5% × firm's net claims reserve under general Contracts of Insurance]

-

[15% × the amount of firm's reinsurance and other recoveries expected  
to be received in respect of those claims]

(b) The technical provision risk component for Class 1, Class 2 or Class 3 Captive Insurers conducting long-term insurance business is the amount calculated in accordance with the following formula:

[2.5% × Policyholder liabilities calculated using actuarial methods for long-term  
insurance]

### 14.4.2 Minimum Capital Requirement for a Protected Cell Company

- (1) Subject to (2), each Cell of a Protected Cell Company must calculate its Minimum Capital Requirement in accordance with PINS 5.2.2 (Obligation to calculate MCR) as if it were a stand-alone Insurer.
- (2) For a Captive Insurer that is a Protected Cell Company, the Capital Floor only applies to the overall Protected Cell Company and there is no Capital Floor for each Cell or the Core.

### 14.4.3 Prescribed Capital Requirement for a Protected Cell Company

- (1) Class 1, Class 2 and Class 3 Captive Insurers are not required to calculate Prescribed Capital Requirement;
- (2) For a Protected Cell Company each Cell of a Protected Cell Company must calculate its Prescribed Capital Requirement in accordance with PINS 5.2.3 (Obligation to calculate PCR) as if it were a stand-alone Insurer.

### 14.4.4 Eligible Capital of a Protected Cell Company

- (1) Each Cell of a Protected Cell Company must calculate its Eligible Capital in accordance with PINS 5.2.1 (Obligation to calculate Eligible Capital).
- (2) The Core of a Protected Cell Company must calculate its Eligible Capital in accordance with PINS 5.2.1 (Obligation to calculate Eligible Capital).



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (3) In calculating its Eligible Capital, a Cell may only rely upon Non-Cellular Assets where it has entered into a recourse agreement with the Core pursuant to which it is entitled to rely upon such Non-Cellular Assets.
- (4) The Core of a Protected Cell Company must not enter into a recourse agreement with a Cell where the total capital thereby made available to Cells of the Protected Cell Company would exceed the Eligible Capital of the Core.



### **SCHEDULE 1 Categories of General Insurance**

A Contract of Insurance will be a General Insurance Contract if it falls within one or more of the following categories:

#### **General Insurance Category 1: Accident**

Contracts of Insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the Person insured:

- (1) sustaining injury as the result of an accident or of an accident of a specified class;
- (2) dying as a result of an accident or of an accident of a specified class; or
- (3) becoming incapacitated in consequence of disease or of disease of a specified class,

including contracts relating to industrial injury and occupational disease but excluding contracts falling within Long-Term Insurance Category 4 (Permanent Health).

#### **General Insurance Category 2: Sickness**

Contracts of Insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of loss to the Persons insured attributable to sickness or infirmity but excluding contracts falling within Long-Term Insurance Category 4 (Permanent Health).

#### **General Insurance Category 3: Land vehicles**

Contracts of Insurance against loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock.

#### **General Insurance Category 4: Railway rolling stock**

Contract of Insurance against loss of or damage to railway rolling stock.

#### **General Insurance Category 5: Aircraft**

Contracts of Insurance upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft.

#### **General Insurance Category 6: Ships**

Contracts of Insurance upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels.

#### **General Insurance Category 7: Goods in transit**

Contracts of Insurance against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.

#### **General Insurance Category 8: Fire and natural forces**

Contracts of Insurance against loss of or damage to property (other than property to which categories 3 to 7 relate) due to fire, explosion, storm, natural forces other than storm, nuclear energy or land subsidence.



### **General Insurance Category 9: Damage to property**

Contracts of Insurance against loss of or damage to property (other than property to which General Insurance Categories 3 to 7 relate) due to hail or frost or any other event (such as theft) other than those mentioned in General Insurance Category 8 (Fire and natural forces).

### **General Insurance Category 10: Motor vehicle liability**

Contracts of Insurance against damage arising out of or in connection with the use of motor vehicles on land, including third-party risks and carrier's liability.

### **General Insurance Category 11: Aircraft liability**

Contracts of Insurance against damage arising out of or in connection with the use of aircraft, including third-party risks and carrier's liability.

### **General Insurance Category 12: Liability of ships**

Contracts of Insurance against damage arising out of or in connection with the use of vessels on the sea or on inland water, including third party risks and carrier's liability.

### **General Insurance Category 13: General liability**

Contracts of Insurance against risks of the persons insured incurring liabilities to third parties, the risks in question not being risks to which General Insurance Categories 10, 11, 12 or 20 relate.

### **General Insurance Category 14: Credit**

Contracts of Insurance against risks of loss to the Persons insured arising from the insolvency of debtors of theirs or from the failure (otherwise than through insolvency) of debtors of theirs to pay their debts when due.

### **General Insurance Category 15: Suretyship**

- (1) Contracts of Insurance against the risks of loss to the Persons insured arising from their having to perform contracts of guarantee entered into by them.
- (2) Fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee, where these are:
  - (a) effected or carried out by a Person not carrying on the business of Accepting Deposits;
  - (b) not effected merely incidentally to some other business carried on by the Person effecting them; and
  - (d) effected in return for the payment of one or more premiums.

### **General Insurance Category 16: Miscellaneous financial loss**

Contracts of Insurance against any of the following risks, namely:

- (1) risks of loss to the Persons insured attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on;



- (2) risks of loss to the Persons insured attributable to their incurring unforeseen expense (other than loss such as is covered by contracts falling within General Insurance Category 18 (Assistance)); or
- (3) risks which do not fall within sub-paragraph (1) or (2) and which are not of a kind such that Contracts of Insurance against them fall within any other General Insurance Category.

### **General Insurance Category 17: Legal expenses**

Contracts of Insurance against risks of loss to the Persons insured attributable to their incurring legal expenses (including costs of litigation).

### **General Insurance Category 18: Assistance**

Contracts of Insurance providing either or both of the following benefits, namely:

- (1) assistance (whether in cash or in kind) for Persons who get into difficulties while travelling, while away from home or while away from their permanent residence; or
- (2) assistance (whether in cash or in kind) for Persons who get into difficulties otherwise than as mentioned in sub-paragraph (1).

### **General Insurance Category 19: Space**

Contracts of Insurance against loss of or damage to spacecraft and space objects (including satellites).

### **General Insurance Category 20: Space liability**

Contracts of Insurance against damage arising out of or in connection with the use of spacecraft and space objects, including third-party risks and carrier's liability.





## **SCHEDULE 2 Categories of Long-Term Insurance**

A Contract of Insurance will be a Long-Term Insurance Contract if it falls within one or more of the following categories:

### **Long-Term Insurance Category 1: Life and annuity**

Contracts of Insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within Long Term Insurance Category 3.

### **Long-Term Insurance Category 2: Marriage and birth**

Contract of Insurance to provide a sum on marriage or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.

### **Long-Term Insurance Category 3: Linked long-term**

Contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

### **Long-Term Insurance Category 3: Permanent health**

Contracts of Insurance providing specified benefits against risks of Persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that:

- (1) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the Persons concerned, or without limit of time; and
- (2) either are not expressed to be terminable by the Insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract.



**SCHEDULE 3 Calculation of Eligible capital**

**1 Application and purpose**

**1.1 Application**

This Schedule applies to every AIFC-Incorporated Insurer.

**2 Calculation of Eligible Capital**

**2.1 Calculating Eligible Capital**

An AIFC-Incorporated Insurer must calculate its Eligible Capital in accordance with the Eligible Capital Calculation Table in rule 2.2 (Eligible Capital Calculation Table) and the provisions in this Schedule.

**2.2 Eligible Capital Calculation Table**

The Eligible Capital Calculation Table is as follows:

<b>(A) Tier 1 Capital:</b>
Permanent Share Capital
Undistributable Reserves
Fund for future appropriations
<b>(B) Deductions from Tier 1 Capital</b>
Investments in own shares
Intangible assets
Interim net losses
<b>(C) Tier 1 Capital after deductions = A-B</b>
<b>(D) Tier 2 Capital:</b>
Perpetual qualifying hybrid capital instruments
Fixed dividend ordinary shares
Subordinated debt
Fixed term preference shares
Any other item approved for inclusion as Tier 2 Capital at the discretion of the AFSA
<b>(E) Total Tier 1 Capital plus Tier 2 Capital = C+D</b>
<b>(F) Deductions from Total of Tier 1 and Tier 2 Capital:</b>



Investments in subsidiaries and associates
Connected lending of a capital nature
Inadmissible assets
<b>(G) Total Tier 1 Capital plus Tier 2 Capital after deductions = E-F = Total Eligible Capital</b>

### 3 Components of Tier 1 Capital

#### 3.1 Permanent Share Capital

Permanent Share Capital means ordinary paid-up share capital, or equivalent however called, which meets the following conditions:

- (a) it is fully paid up;
- (b) any dividends in relation to it are non-cumulative;
- (c) it is available to absorb losses on a going concern basis;
- (d) it ranks for repayment upon winding up or insolvency after all other debts and liabilities;
- (e) it is undated;
- (f) the proceeds of an issue of permanent share capital is immediately and fully available to the AIFC-Incorporated Insurer;
- (g) the AIFC-Incorporated Insurer is not obliged to pay any dividends on the shares (except in the form of shares that themselves comply with this rule);
- (h) the AIFC-Incorporated Insurer does not have any other obligation or commitment to transfer any economic benefit in relation to that permanent share capital;
- (i) dividends and other charges on the shares can only be paid out of accumulated realised profits;

#### 3.2 Undistributable Reserves

- (1) Undistributable Reserves has the meaning attributed to it by section 72(7) of the AIFC Companies Regulations namely any of the following:
  - (a) a Company's share premium account;
  - (b) a Company's capital redemption reserve;
  - (c) the amount by which a Company's accumulated, unrealised profits (so far as not previously utilised by Distribution or capitalisation) exceeds its accumulated, unrealised losses (so far as not previously written off in a reduction or reorganisation of capital duly made);



- (d) any other reserve that the Company is prohibited from distributing by its Articles of Association or under any applicable AIFC Regulations or AIFC Rules.
- (2) Undistributable Reserves also include capital contributions if:
- (i) the capital contributions satisfy the requirements of rule 3.1 (a) to (i); and
  - (ii) the AIFC-Incorporated Insurer told the AFSA of its intention to include the capital contributions at least 1 month before the day they were included.

### **3.3 Fund for future appropriations**

Fund for future appropriations means the fund comprising all funds the allocation of which either to policyholders or to shareholders has not been determined by the end of the financial year, or the balance sheet items under international accounting standards which in aggregate represent as nearly as possible that fund.

### **3.4 Intangible assets**

Intangible assets include goodwill, capitalised development costs, brand names, trademarks and similar rights and licences.

## **4 Components of Tier 2 Capital**

### **4.1 Perpetual qualifying hybrid capital instruments**

An AIFC-Incorporated Insurer may only include perpetual qualifying hybrid capital instruments as part of its Tier 2 Capital if:

- (a) they are unsecured, subordinated and fully paid-up;
- (b) they are perpetual; and
- (c) they are available to absorb losses on a going concern basis.

### **4.2 Subordinated debt**

- (1) An AIFC-Incorporated Insurer must not include subordinated debt as part of its Tier 2 Capital unless it meets the following conditions:
  - (a) the claims of the subordinated creditors must rank behind those of all unsubordinated creditors;
  - (b) no interest or principal may be payable:
    - (i) at a time when the AIFC-Incorporated Insurer is in breach of its minimum capital requirement; or
    - (ii) if the payment would mean that the AIFC-Incorporated Insurer would be in breach of these rules;
  - (c) the only events of default must be non-payment of any interest or principal under the debt agreement or the winding-up of the AIFC-Incorporated Insurer;



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (d) the remedies available to the subordinated creditor in the event of non-payment in respect of the subordinated debt must be limited to petitioning for the winding up of the AIFC-Incorporated Insurer or proving for the debt and claiming in the liquidation of the AIFC-Incorporated Insurer;
  - (e) any events of default and any remedy described in paragraph (d) must not prejudice the matters in paragraphs (a) and (b);
  - (f) in addition to the requirements about repayment in paragraphs (a) and (b), the subordinated debt must not become due and payable before its stated final maturity date except on an event of default complying with paragraph (c);
  - (g) the agreement and the debt are governed by the laws of a jurisdiction:
    - (i) under which the other conditions mentioned in this subrule can be met; or
    - (ii) that is otherwise acceptable, generally or in a particular case, to the AFSA;
  - (h) to the fullest extent permitted under the law of the relevant jurisdictions, creditors must waive their right to set off amounts they owe the AIFC-Incorporated Insurer against subordinated amounts owed to them by the AIFC-Incorporated Insurer;
  - (i) the terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the conditions set out in paragraphs (a) to (h);
  - (j) the debt must be unsecured and fully paid up;
  - (k) the AIFC-Incorporated Insurer has notified the AFSA that it intends to include subordinated debt as part of its Eligible Capital and the AFSA has not advised the AIFC-Incorporated Insurer in writing within thirty days of the date of the notification that the subordinated debt must not form part of its Eligible Capital.
- (2) An AIFC-Incorporated Insurer must not include in its Eligible Capital subordinated debt issued with step-ups in the first 5 years following the date of issue.
- (3) For the purposes of calculating the amount of subordinated debt that may be included in its Eligible Capital, an AIFC-Incorporated Insurer must amortise the principal amount on a straight-line basis by 20% per annum in its final 4 years to maturity.

### 4.3 Legal opinions on Tier 2 Capital instruments

- (1) An AIFC-Incorporated Insurer must obtain a written external legal opinion stating that the requirements of rules 4.1 or 4.2 have been met in respect of any perpetual qualifying hybrid capital instrument or subordinated debt that the AIFC-Incorporated Insurer is proposing to include as Eligible Capital.
- (2) An AIFC-Incorporated Insurer must provide copies of the opinions referred to in subrule (1) to the AFSA if requested by the AFSA to do so.

### 4.4 Other Tier 2 Capital instruments

An AIFC-Incorporated Insurer may include additional items in its Tier 2 Capital with the written approval of the AFSA.



### **5 Deductions from total of Tier 1 and Tier 2 Capital**

#### **5.1 Investments in subsidiaries and associates**

An AIFC-Incorporated Insurer must deduct investments in subsidiaries and associates from the total of Tier 1 Capital and Tier 2 Capital.

#### **5.2 Connected lending of a capital nature**

An AIFC-Incorporated Insurer must deduct connected lending of a capital nature from the total of Tier 1 and Tier 2 Capital.

#### **5.3 Inadmissible assets**

An AIFC-Incorporated Insurer must deduct the following inadmissible assets from the total of Tier 1 Capital and Tier 2 Capital:

- (a) tangible fixed assets, including inventories, plant and equipment and vehicles;
- (b) deferred acquisition costs;
- (c) deferred tax assets;
- (d) deficiencies of net assets in subsidiaries;
- (f) any investment by a subsidiary of the AIFC-Incorporated Insurer in the AIFC-Incorporated Insurer's own shares;
- (g) holdings of other investments which are not readily realisable investments; and
- (h) any other assets to be deducted from Eligible Capital as directed by the AFSA.

### **6 Limits on the use of different forms of capital**

#### **6.1 Instruments not to be included in Tier 2 Capital—exceeding 100% of Tier 1 Capital**

A capital instrument is not eligible for inclusion in Tier 2 Capital to the extent that its inclusion will result in the aggregate amount of Tier 2 Capital exceeding 100% of eligible Tier 1 Capital (net of deductions).



**SCHEDULE 4 Calculation of Minimum Capital Requirement (MCR)**

**1 Minimum capital requirement (MCR)**

**1.1 The Capital Floor**

- (1) An AIFC-Incorporated Insurer must maintain a paid up share capital of not less than the Capital Floor, or an equivalent sum in any currency acceptable to the AFSA.
- (2) An AIFC-Incorporated Insurer must maintain minimum shareholders' funds of at least 75% of the Capital Floor or an equivalent sum in any currency acceptable to the AFSA.
- (3) The Capital Floor is:
  - (a) US\$7,000,000 for an AIFC-Incorporated Insurer carrying on General Insurance Business;
  - (b) US\$7,000,000 for an AIFC-Incorporated Insurer carrying on Long-term Insurance Business; or
  - (c) An amount specified in writing by the AFSA.

**1.2 The MCR for General Insurance Business**

- (1) The MCR for an AIFC-Incorporated Insurer carrying on General Insurance Business is an amount not less than the higher of:
  - (a) 12% of that Insurer's gross written premiums during the previous financial year, net of:
    - (i) the amount of any premium taxes, rebates, refunds, and commissions accrued by the Insurer, and
    - (ii) the gross amount of any reinsurance premiums (after deduction of any rebates or commissions receivable by the Insurer) ceded by the Insurer in respect of General Insurance Business during that preceding financial year;
  - (b) 12% of the value of claims reserves and premium reserves, net of reinsurance and amounts reserved to maximum; and
  - (c) the Capital Floor applicable to that Insurer.
- (2) For the purposes of rule 1.2(1)(a) any funds received by an Insurer in return for the assumption of insurance obligations under a novation, portfolio transfer or other scheme or arrangement must be included in the gross written premium income computation at a value:
  - (a) determined on a basis acceptable to the AFSA; and
  - (b) supported by an actuarial opinion acceptable to the AFSA.
- (3) Reinsurance ceded by an Insurer to an Associated Party shall not be taken into account for the purposes of the MCR calculation unless:



- (a) the Associated Party is an AIFC-Incorporated Insurer and meets the solvency requirements in these rules, or
- (b) the AFSA, in any particular case, consents in writing to that reinsurance being taken into account.

### 1.3 The MCR for Long-term Insurance Business

- (1) The MCR of a an AIFC-Incorporated Insurer carrying on Long-term Insurance Business is an amount not less than the higher of -
  - (a) 2.5% of that Insurer's total reserves, net of reinsurance; and
  - (b) the Capital Floor applicable to that Insurer.
- (2) Where an Insurer has entered into Contracts of Insurance falling within Long-Term Insurance Category 3 (Linked long-term business), the value of the total reserves in rule 1.3(1)(a) should be reduced by the value of the linked liabilities.
- (3) Reinsurance ceded by an Insurer to an Associated Party shall not be taken into account for the purposes of the MCR calculation unless -
  - (a) the Associated Party is an AIFC-Incorporated Insurer and meets the solvency requirements in these rules, or
  - (b) the AFSA, in any particular case, consents in writing to that reinsurance being taken into account.





## SCHEDULE 5 Calculation of Prescribed Capital Requirement (PCR)

### 1 Prescribed capital requirement (PCR)

#### 1.1 Calculation of the PCR

The PCR for an AIFC-Incorporated Insurer is the higher of:

- (a) 150% of the AIFC-Incorporated Insurer's MCR; and
- (b) the AIFC-Incorporated Insurer's Risk-Based Capital Requirement.

### 2 Definitions

#### 2.1 Risk-Based Capital Requirement

- (1) The Risk-Based Capital Requirement for an AIFC-Incorporated Insurer that, under PINS 5.3.1 (Approval by AFSA), has been approved to use its own internal model to calculate its Risk-Based Capital Requirement is the amount calculated using that model.
- (2) The Risk-Based Capital Requirement for an AIFC-Incorporated Insurer that, under PINS 5.3.1 (Approval by AFSA), has been approved to use its own internal model to replace 1 or more components of its Investment, Insurance and Operational Risk Requirements is the amount calculated using those components as replaced and the other components of the AIFC-Incorporated Insurer's Investment, Insurance and Operational Risk Requirements.
- (3) The Risk-Based Capital Requirement for any other AIFC-Incorporated Insurer is the sum of the AIFC-Incorporated Insurer's:
  - (a) Investment Risk Requirement;
  - (b) Insurance Risk Requirement; and
  - (c) Operational Risk Requirement.

#### 2.2 Investment Risk Requirement

An AIFC-Incorporated Insurer's Investment Risk Requirement is the sum of its:

- (a) Asset Risk Component;
- (b) Off-Balance Sheet Asset Risk Component; and
- (c) Off-Balance Sheet Liability Risk Component.

#### 2.3 Insurance Risk Requirement

An AIFC-Incorporated Insurer's Insurance Risk Requirement is the sum of its:

- (a) Premium Risk Component;
- (b) Outstanding Claims Risk Component;
- (c) Long-Term Insurance Risk Component; and



- (d) Insurance Concentration Risk Component.

**2.4 Operational Risk Requirement**

- (1) The amount of an AIFC-Incorporated Insurer’s Operational Risk Requirement is 2% of whichever is the higher of:
  - (a) the AIFC-Incorporated Insurer’s gross written premiums in the 12 months ending on the Solvency Reference Date; and
  - (b) its technical provisions (without deduction for reinsurance) as at the Solvency Reference Date.
- (2) However, if the amount calculated under subrule (1) is more than a ceiling, calculated as:

$$\left\{ \begin{array}{l} \text{Investment} \\ \text{Risk} \\ \text{Requirement} \end{array} + \begin{array}{l} \text{Insurance} \\ \text{Risk} \\ \text{Requirement} \end{array} \right\} \times \left( \frac{0.15}{0.85} \right);$$

then the AIFC-Incorporated Insurer’s Operational Risk Requirement is the amount of the ceiling.

**3 Counterparty Grades**

**3.1 Meaning of Counterparty Grade**

- (1) In this Schedule:
  - (a) Counterparty Grade (or Grade) has the meaning given by subrule (2); and
  - (b) Invested Asset means an asset, right or interest held by an Insurer for the primary purpose of generating revenue or for directly providing funds to meet the Insurer’s cash outflows in the future.
- (2) For this Schedule, the Grade of an asset is its Grade according to the rating of its counterparty, in accordance with table A.

**Table A Grade of assets according to counterparty ratings**

Item	Rating of counterparty by:				Grade of asset
	Standard & Poor’s	Moody’s	A. M. Best	Fitch	
1	AAA	Aaa	A++	AAA	1
2	AA+ AA AA-	Aa1 Aa2 Aa3	A+	AA+ AA AA-	2



Item	Rating of counterparty by:				Grade of asset
	Standard & Poor's	Moody's	A. M. Best	Fitch	
3	A+	A1	A	A+	3
	A	A2	A-	A	
	A-	A3		A-	
4	BBB+	Baa1	B++	BBB+	4
	BBB	Baa2	B+	BBB-	
	BBB-	Baa3			
5	BB+ or below	Ba1 or below	B or below	BB+ or below	5

- (3) Unrated assets, exposures and counterparties must be classified as Grade 5.

**3.2 Using different credit rating agencies**

- (1) An AIFC-Incorporated Insurer must rely on the ratings issued by the same credit rating agency for determining Counterparty Grades unless the AIFC-Incorporated Insurer has good reason to use a different credit rating agency or agencies.
- (2) If a counterparty or debt obligation has been rated by more than 1 rating agency and there are 2 or more ratings that lead to different capital charges, the AIFC-Incorporated Insurer must use the credit rating that results in the highest capital charge.
- (3) An AIFC-Incorporated Insurer must not use the rating of an agency that is not in table A unless the AIFC-Incorporated Insurer has the written permission of the AFSA.

**4 Asset Risk Component**

**4.1 Asset Risk Component**

- (1) An AIFC-Incorporated Insurer's Asset Risk Component is the sum of the amounts obtained by multiplying the value of each asset of the AIFC-Incorporated Insurer, Graded according to the Counterparty Grade of the asset, by the percentage applicable to that asset, under:
  - (a) for assets that are not reinsurance assets—table B1;
  - (b) for assets that are reinsurance assets where the reinsurer is subject to prudential supervision by a subrule (2) regulator—table B2; or
  - (c) for assets that are reinsurance assets where the reinsurer is not subject to prudential supervision by a subrule (2) regulator—table B3.



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (2) A regulator is a subrule (2) regulator if it is located:
- (a) in the AIFC or the Republic of Kazakhstan;
  - (b) in 1 of the member states of the European Union;
  - (c) in Australia, Canada, Hong Kong, Iceland, Japan, Norway, Singapore, Switzerland, the United States of America; or
  - (d) in any other jurisdiction that is a signatory to the Multilateral Memorandum of Understanding on Cooperation and Information Exchange initiated by the International Association of Insurance Supervisors.

**Note 1:** For the list of the member states of the European Union, see [http://europa.eu/about-eu/countries/index\\_en.htm](http://europa.eu/about-eu/countries/index_en.htm).

**Note 2:** For the list of signatories to the Multilateral Memorandum of Understanding on Cooperation and Information Exchange, see <http://www.iaisweb.org/MMoU-signatories-605>.

**Table B1: Percentage applicable to assets that are not reinsurance assets**

Item	Asset	%
1	cash, bank deposits and other cash equivalents Grade 1 sovereign bonds	0.50
2	bonds that mature, or are redeemable, in less than 1 year issued by a counterparty with a rating of Grade 1 or 2 (excluding subordinated debt and government debt obligations dealt with anywhere else in this table) cash management trusts with a counterparty rating of Grade 1 or 2	1.00
3	unpaid premiums due 6 months or less previously from a counterparty with a rating of Grade 1, 2 or 3 bonds that mature, or are redeemable, in 1 year or more issued by a counterparty with a rating of Grade 1 or 2 (excluding subordinated debt and government debt obligations dealt with anywhere else in this table)	2.00
4	unpaid premiums due 6 months or less previously from an unrated counterparty or a counterparty with a rating of Grade 4 or 5 bonds issued by a counterparty with a rating of Grade 3 (excluding subordinated debt) cash management trusts with a counterparty rating of Grade 3 secured loans	4.00



AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

Item	Asset	%
5	unpaid premiums due more than 6 months previously from a counterparty with a rating of Grade 1, 2 or 3  bonds issued by a counterparty with a rating of Grade 4 (excluding subordinated debt)  cash management trusts with a counterparty rating of Grade 4	6.00
6	unpaid premiums due more than 6 months previously from an unrated counterparty or a counterparty with a rating of Grade 4 or 5  bonds issued by a counterparty with a rating of Grade 5 (excluding subordinated debt)  cash management trusts with a counterparty rating of Grade 5  listed subordinated debt	8.00
7	unlisted subordinated debt  preference shares	10.00
8	listed equity investment  listed trusts	16.00
9	direct holdings of real estate  unlisted equity investment  unlisted trusts	20.00
10	loans to: (a) directors of the Insurer; (b) directors of <i>related</i> parties; or (c) dependent relatives of such directors  unsecured loans to employees (except loans of less than US\$1,000)  assets subject to a fixed or floating charge	100.00
11	other non-reinsurance assets not mentioned in this table	20.00



**Table B2: Percentage applicable to reinsurance assets—reinsurer supervised by subrule (2) regulator**

Item	Asset	%
1	reinsurance assets due from reinsurers with a counterparty rating of Grade 1	1.00
2	reinsurance assets due from reinsurers with a counterparty rating of Grade 2	2.00
3	reinsurance assets due from reinsurers with a counterparty rating of Grade 3	4.00
4	reinsurance assets due from reinsurers with a counterparty rating of Grade 4	6.00
5	reinsurance assets due from reinsurers with a counterparty rating of Grade 5	8.00

**Table B3: Percentage applicable to reinsurance assets—reinsurer not by supervised by subrule (2) regulator**

Item	Asset	%
1	reinsurance assets due from reinsurers with a counterparty rating of Grade 1	1.20
2	reinsurance assets due from reinsurers with a counterparty rating of Grade 2	2.40
3	reinsurance assets due from reinsurers with a counterparty rating of Grade 3	4.80
4	reinsurance assets due from reinsurers with a counterparty rating of Grade 4	7.20
5	reinsurance assets due from reinsurers with a counterparty rating of Grade 5	9.60

#### 4.2 Effect of guarantee or collateral

- (1) Assets that have been explicitly, unconditionally and irrevocably guaranteed for their remaining term to maturity by a guarantor with a counterparty rating in Grades 1, 2 or 3 who is not a related party to the AIFC-Incorporated Insurer may be assigned the asset risk charge that would apply to a debt instrument issued from the guarantor.
- (2) Where an AIFC-Incorporated Insurer holds collateral against an asset, and this collateral takes the form of a charge, mortgage or other security interest in, or over, cash, or any debt security whose issuer has a counterparty rating of Grades 1, 2 or 3, the AIFC-Incorporated Insurer may apply the asset risk charge relevant to the collateral (instead of applying the asset risk charge that would otherwise apply to the asset).
- (3) The provisions in subrules (1) and (2) above apply only to so much of the asset that is covered by the guarantee or the collateral.

#### 4.3 Assets subject to mortgage or charge

- (1) Subject to (2), assets of the AIFC-Incorporated Insurer that are under a fixed or floating charge, mortgage or other security are subject to an asset risk charge of 100% to the extent of the indebtedness secured on those assets. This would replace the asset risk charge that would otherwise apply to the secured assets.



- (2) Where the security supports an AIFC-Incorporated Insurer's Insurance Liabilities, the asset risk charge of 100% is applicable only to the amount by which the market value of the charged assets exceeds the AIFC-Incorporated Insurer's supported liabilities.

#### **4.4 Excluded assets**

An AIFC-Incorporated Insurer need not include an amount in the asset risk charge for any asset excluded from Eligible Capital in accordance with the table B1 in paragraph 4.1.

### **5 Off-Balance Sheet Asset Risk Component**

#### **5.1 When Off-Balance Sheet Asset Risk Component must be calculated**

An AIFC-Incorporated Insurer must calculate an Off-Balance Sheet Asset Risk Component, if the AIFC-Incorporated Insurer is, as of the Solvency Reference Date, a party to a Derivative contract, including a forward, future, swap, option or other similar contract, but not:

- (a) a put option serving as a guarantee;
- (b) a foreign exchange contract which has an original maturity of 14 calendar 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.

#### **5.2 How to calculate Off-Balance Sheet Asset Risk Component**

An AIFC-Incorporated Insurer must calculate its Off-Balance Sheet Asset Risk Component as the sum of the amounts obtained by applying the calculations set out in paragraph 5.3 in respect of each Derivative contract entered into by the AIFC-Incorporated Insurer that meets the description in paragraph 5.1.

#### **5.3 Amount of Off-Balance Sheet Asset Risk Component for Derivative contract**

To calculate the amount of the Off-Balance Sheet Asset Risk Component, the asset equivalent value of each Derivative (as determined in paragraph 5.4) is multiplied by the Asset Risk Component as though the asset equivalent value were a debt obligation due from the Derivative counterparty.

#### **5.4 Asset equivalent value**

- (1) The asset equivalent value is the current mark-to-market exposure of the Derivative (where positive) and a potential exposure add-on.
- (2) The potential exposure add-on is determined by multiplying the notional principal amount of the Derivative in accordance with the following table, according to the nature and residual maturity of the Derivative.



Residual maturity	Interest rate contracts	Foreign exchange & gold contracts	Equity contracts	Precious metal contracts (except gold)	Other contracts
Less than 1 year	Nil	1.0%	6.0%	7.0%	10.0%
1 year to less than 5 years	0.5%	5.0%	8.0%	7.0%	12.0%
5 years or more	1.5%	7.5%	10.0%	8.0%	15.0%

**6 Off-Balance Sheet Liability Risk Component**

**6.1 How to calculate Off-Balance Sheet Liability Risk Component**

- (1) An AIFC-Incorporated Insurer must calculate its Off-Balance Sheet Liability Risk Component by applying, to the face value of any credit substitute it has issued (including letters of credit, guarantees and put options serving as guarantees) the asset risk component that would be applied to the obligation or asset over which the credit substitute has been written.
- (2) Where the credit substitute is supported by collateral or a guarantee, the provisions of paragraph 4.2 (Effect of guarantee or collateral) may be applied by the AIFC-Incorporated Insurer.

**7 Premium Risk Component**

**7.1 Application**

Paragraphs 7.2 to 7.4 apply to General Insurance Business.

**7.2 Premium Risk Component**

- (1) An AIFC-Incorporated Insurer’s Premium Risk Component is the sum of the amounts obtained by multiplying the AIFC-Incorporated Insurer’s net premium liability that falls within each Category of General Insurance Business by the percentage applicable to that liability under table C.

Table C Percentage factor—Premium Risk Component

Item	Category of General Insurance Business	Direct insurance %	Reinsurance: proportional %	Reinsurance: non-proportional %
1	Category 1, 2	16	18	21
2	Category 3, 18	13	15	18





Item	Category of General Insurance Business	Direct insurance %	Reinsurance: proportional %	Reinsurance: non-proportional %
3	Category 4, 5, 6, 7, 8, 9, 16, 17, 19	16	18	21
4	Category 10, 11, 12, 13, 14, 15, 20	21	23	26

(2) In this rule:

net premium liability means premium liability less any expected reinsurance and non-reinsurance recoveries in respect of that premium liability as at the Solvency Reference Date.

### 7.3 AIFC-Incorporated Insurer may apply for different percentages

- (1) The AFSA may, on application of an AIFC-Incorporated Insurer conducting General Insurance Business in Category 1, give written consent to the use of percentages other than those in table C if the AFSA is satisfied that:
  - (a) adequate mortality and morbidity information exists in respect of that business; and
  - (b) the information provides a reasonable basis for reliance on actuarial principles.
- (2) The percentages that may be used must be those stated in the notice but may not be lower than:
  - (a) 12% in the case of direct insurance and proportional reinsurance; and
  - (b) 16% in the case of non-proportional reinsurance.

### 7.4 Certain contracts not included

- (1) If an AIFC-Incorporated Insurer underwrites Contracts of Insurance in General Insurance Categories 1 and 2 that are Long-Term Insurance Contracts, the AIFC-Incorporated Insurer need not calculate a Premium Risk component in respect of those contracts.
- (2) For Contracts of Insurance in General Insurance Categories 1 and 2 that are Long-Term Insurance contracts, the AIFC-Incorporated Insurer must calculate a Long-Term Insurance Risk Component.

## 8 Outstanding Claims Risk Component

### 8.1 Application

Paragraphs 8.2 to 8.4 apply to General Insurance Business.

### 8.2 Outstanding Claims Risk Component

- (1) An AIFC-Incorporated Insurer's Outstanding Claims Risk Component is the sum of the amounts obtained by multiplying the AIFC-Incorporated Insurer's net liability for



outstanding claims that falls within each Category of Insurance Business by the percentage applicable to that liability under table D.

Table D Percentage factor— Outstanding Claims Risk Component

Item	Categories	Direct insurance %	Reinsurance: proportional %	Reinsurance: non-proportional %
1	Category 1, 2	11	12	14
2	Category 3, 18	9	10	12
3	Category 4, 5, 6, 7, 8, 9, 16, 17, 19	11	12	14
4	Category 10, 11, 12, 13, 14, 15, 20	14	15	17

(2) In this rule:

net liability for outstanding claims means the liability in respect of future claims referred in PINS 8.3.2 (Treatment of value of future claims payments), less any expected reinsurance and non-reinsurance recoveries in respect of that liability as at the Solvency Reference Date.

**8.3 AIFC-Incorporated Insurer may apply for different percentages**

- (1) The AFSA may, by written notice, allow the AIFC-Incorporated Insurer to use percentages other than those in table D if the AFSA is satisfied that:
  - (a) adequate mortality and morbidity information exists in respect of that business; and
  - (b) the information provides a reasonable basis for reliance on actuarial principles.
- (2) The percentages that may be used must be those stated in the notice but may not be lower than 8%.

**8.4 Certain contracts not included**

- (1) If an AIFC-Incorporated Insurer underwrites Contracts of Insurance in Categories 1 and 2 that are Long-Term Insurance Contracts, the AIFC-Incorporated Insurer need not calculate an Outstanding Claims Risk Component in respect of those contracts.
- (2) For Contracts of Insurance in Categories 1 and 2 that are Long-Term Insurance Contracts, the AIFC-Incorporated Insurer must calculate a Long-Term Insurance Risk Component.

**9 Long-Term Insurance Risk Component**

**9.1 Application**

Paragraphs 9.2 and 9.3 apply to Long-Term Insurance Business.



### 9.2 Long-Term Insurance Risk Component

An AIFC-Incorporated Insurer's Long-Term Insurance Risk Component is the sum of the following amounts, so far as they relate to the Long-Term insurance business of the AIFC-Incorporated Insurer:

- (a) 1.25% of the amount of provisions in respect of Long-Term Insurance Business that is [investment-linked insurance, where the contracts are subject to a capital guarantee;]
- (b) 0.5% of the amount of provisions in respect of Long-Term Insurance Business that is investment-linked insurance, where the contracts are not subject to a capital guarantee;
- (c) 3% of the amount of provisions in respect of Long-Term Insurance Business other than business described in paragraphs (a) and (b);
- (d) the amount obtained by multiplying the amount of capital at risk under paragraph 9.3 by 0.1%;
- (e) if the AIFC-Incorporated Insurer issues policies that are contingent on mortality—the amount of anticipated claims cost arising from a 0.5 per thousand increase in the rate of lives insured dying over the following year.

### 9.3 Capital at risk

- (1) Capital at risk of an AIFC-Incorporated Insurer means the total amount of sums assured on Long-Term Insurance Contracts issued by the AIFC-Incorporated Insurer, less:
  - (a) the total amount of mathematical reserves for those contracts; and
  - (b) any expected reinsurance and non-reinsurance recoveries as at the Solvency Reference Date.
- (2) For an annuity, the sum assured must be taken to be the present value of the annuity payments.
- (3) The contribution of each contract to capital at risk must be determined separately. If the capital at risk calculated for a contract is less than zero, the capital at risk for that contract is taken to be zero.

## 10 Insurance Concentration Risk Component

### 10.1 Application

Paragraphs 10.2 and 10.3 apply to General Insurance Business.

### 10.2 Insurance Concentration Risk Component

- (1) The Insurance Concentration Risk Component for an AIFC-Incorporated Insurer is:  
$$\text{MER} + \text{CoR (if any)} - \text{RP (if any)}$$
where:  
MER has the meaning given in paragraph 10.3 (Maximum event retention).



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

CoR or cost of reinstatement, in relation to an extreme event, means:

- (a) the rate that an AIFC-Incorporated Insurer has, under contract, agreed to pay the reinsurer concerned to reinstate the reinsurance cover relating to the extreme event; or
- (b) if the AIFC-Incorporated Insurer has not agreed on the rate for the reinsurance cover—the AIFC-Incorporated Insurer's estimate of the cost of reinstating that cover based on current reinsurance market conditions (but no less than the original rate of reinsurance cover).

RP or reinstatement premiums, for an AIFC-Incorporated Insurer that also writes reinsurance, means the amount of inward reinstatement premiums from cedants in respect of catastrophe reinsurance cover if the AIFC-Incorporated Insurer has a binding netting arrangement with the cedant.

- (2) An AIFC-Incorporated Insurer must seek advice from its Approved Actuary about estimating its MER if the AIFC-Incorporated Insurer:
  - (a) issues policies that do not have a maximum amount insured;
  - (b) insures risks in multiple lines of business; or
  - (c) has a complex portfolio of insurance risks.

### 10.3 Maximum event retention

- (1) MER or maximum event retention, in relation to an extreme event, is the maximum amount of loss to which the AIFC-Incorporated Insurer will be exposed due to an accumulation of exposures, after netting out any potential reinsurance recoveries.
- (2) In calculating its MER, an AIFC-Incorporated Insurer must:
  - (a) set the amount based on the accumulation of exposures of the AIFC-Incorporated Insurer to a single extreme event;
  - (b) assume a return period of 1 in 250 years (or greater), where the return period is the expected average period within which the extreme event will re-occur; and
  - (c) take into account:
    - (i) its risk profile and risk tolerance;
    - (ii) its claims history (using available internal and external data);
    - (iii) the capital resources available to it;
    - (iv) its current and future solvency needs;
    - (v) its reinsurance programme;
    - (vi) the classes of insurance business underwritten by it; and
    - (vii) the areas where it conducts business.



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

- (3) If an AIFC-Incorporated Insurer is exposed to more than 1 extreme event, its MER is the largest of the MERs calculated by the AIFC-Incorporated Insurer for those events.
- (4) Despite anything in this rule, the AFSA may require the AIFC-Incorporated Insurer to make adjustments in calculating its MER.



**SCHEDULE 6 Prudential returns by Insurers**

Item	Title of return	Form number	Frequency for AIFC-Incorporated Insurers.	and	Frequency for Insurers which are not AIFC-Incorporated
1	Statement of financial position / balance sheet	INS100	Annually quarterly	and	Annually quarterly
2	Statement of comprehensive income / income statement	INS200	Annually quarterly	and	Annually quarterly
3	Analysis of Derivative activities	INS111	Annually quarterly	and	n/a
4	Analysis of investment concentrations in foreign currency	INS113	Annually quarterly	and	n/a
5	Analysis of investment concentrations risk	INS114	Annually quarterly	and	n/a
6	Supplementary information	INS210	Annually quarterly	and	Annually quarterly
7	Calculation of Eligible Capital	INS300	Annually quarterly	and	n/a
8	Calculation of prescribed capital requirement (PCR)	INS310	Annually quarterly	and	n/a
9	Calculation of asset risk component	INS320	Annually quarterly	and	n/a
10	Calculation of off balance sheet asset risk component	INS330	Annually quarterly	and	n/a
11	Calculation of off balance sheet liability risk component	INS340	Annually quarterly	and	n/a



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

12	Calculation of premium risk component	INS350	Annually quarterly	and	n/a
13	Calculation of technical provisions risk component	INS360	Annually quarterly	and	n/a
14	(For Long-Term Insurers only) Calculation of long-term insurance risk component	INS370	Annually quarterly	and	n/a
15	Calculation of insurance concentration risk component	INS380	Annually quarterly	and	n/a
16	Statement of reinsurance	INS400	Annually		Annually quarterly and
17	Statement of premium information	INS500	Annually quarterly	and	Annually quarterly and
18	Statement of technical provisions and claims	INS600	Annually quarterly	and	Annually quarterly and
19	(For Long-Term Insurers only) Statement of changes in long-term business	INS610	Annually		n/a
20	Statement of intra-group transactions	INS700	Annually quarterly	and	n/a
21	Statement of largest clients	INS800	Annually quarterly	and	Annually quarterly and



**WORKING SCHEDULE 1 - List of Defined Terms for PINS and associated rulebooks**

AIFC-Incorporated Insurer	an Insurer that is incorporated as a legal entity under the laws of the AIFC
Approved Actuary	The Approved Individual performing the role identified at PINS 2.2.5 (Approved Actuary).
Asset Risk Component	The capital component identified in paragraph 4.1 of PINS Schedule 5 (Asset Risk Component)
Associated Party	(a) a holding company, subsidiary or related company of an AIFC-Incorporated Insurer, (b) a subsidiary or related company of a holding company of an AIFC-Incorporated Insurer, (c) a holding company of a subsidiary of an AIFC-Incorporated Insurer, or (d) a company that, alone or with associates, is entitled to exercise, or control the exercise of, more than 50% of the voting power in the general meeting of an AIFC-Incorporated Insurer.
Capital Floor	The minimum paid up share capital, or equivalent in any currency acceptable to the AFSA, which must be maintained by an AIFC-Incorporated Insurer pursuant to paragraph 1.1 (The Capital Floor) of PINS Schedule 4(Calculation of Minimum Capital Requirement (MCR)).
Captive Insurer	an Authorised Firm with a Licence to carry on Insurance Business only for the business or operations of the Group to which it belongs
Captive Insurance Business	the business of Effecting or Carrying out Contracts of Insurance only for the business or operations of the Group to which the Captive Insurer belongs.
Contract of Insurance	any enforceable contract under which a 'provider' undertakes: (1) in consideration of one or more payments; (2) to pay money or provide a corresponding benefit (including in some cases services to be paid for by the provider) to a 'recipient'; (3) in response to a defined event the occurrence of which is uncertain (either as to when it will occur or as to whether it will occur at all) and adverse to the interests of the recipient
Contract of Reinsurance	a Contract of Insurance covering all or part of a risk to which a Person is exposed under a Contract of Insurance
Counterparty Grade	the grade of an asset according to the rating of its counterparty, in accordance with the table at paragraph 3.1 (Table A Grade of assets according to counterparty ratings) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR))





Eligible Capital	the capital instruments that may be recognised by an AIFC-Incorporated Insurer for the purpose of meeting its MCR and PCR in accordance with PINS Schedule 3 (Calculation of Eligible capital)
Financial Condition Report	the report identified in PINS 9.1.2 (Financial Condition Reports)
General Captive Insurance Business	Captive Insurance Business in relation to General Insurance Contracts.
General Insurance Business	Insurance Business in relation to General Insurance Contracts
General Insurance Contract	a Contract of Insurance that falls within one of the categories set out in Schedule 1 of PINS.
Insurance Business	the business of conducting either or both of the following regulated activities: (a) effecting Contracts of Insurance; (b) carrying out Contracts of Insurance.
Insurance Liabilities	liabilities of an Insurer arising out of its General Insurance Business and Long-Term Insurance Business.
Insurance Risk Requirement	The capital component identified in 2.3 (Insurance Risk Requirement) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR)).
Insurer	an Authorised Firm with an authorisation to conduct Insurance Business.
Internal Auditor	The Approved Individual performing the role identified at PINS 2.2.4 (Internal Auditor).
Investment Risk Requirement	the sum of an AIFC-Incorporated Insurer's Asset Risk Component, Off-Balance Sheet Asset Risk Component and Off-Balance Sheet Liability Risk Component
Life Policy	a Long-Term Insurance Contract (other than a Contract of Reinsurance or a Pure Protection Contract) and includes a Long-Term Care Insurance Contract
Long-Term Captive Insurance Business	Captive Insurance Business in relation to Long-Term Insurance Contracts
Long-Term Care Insurance Contract	a Long-Term Insurance Contract:  (a) that satisfies the following conditions:  (i) it provides (or would at the Policyholder's option provide) benefits for the Policyholder in the event that the Policyholder's mental or physical health deteriorates to the



	<p>extent that he or she is incapacitated, is unable to live independently without assistance, and is not expected to recover to the extent that he or she could live independently without assistance;</p> <p>(ii) those benefits are payable or provided for services, accommodation or goods that are necessary or desirable for the continuing care of the Policyholder because of that incapacity;</p> <p>(iii) those benefits can be paid periodically for all or part of the period during which the Policyholder is unable to live independently without assistance; or</p> <p>(b) that is sold or held out as providing benefits for the Policyholder as set out in paragraph (a).</p>
Long-Term Insurance Business	Insurance Business in relation to Long-Term Insurance Contracts
Long-Term Insurance Contract	a Contract of Insurance that falls within one of the categories set out in Schedule 2 of PINS
Long-Term Insurance Fund	A fund established by an Insurer for the purposes of PINS 7 (Segregation of Long-Term Insurance assets and liabilities)
Long-Term Insurance Risk Component	The capital component identified in paragraph 9.2 (Long-Term Insurance Risk Component) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR)).
MCR	Minimum Capital Requirement
Non-Investment Insurance Contract	a Contract of Insurance that is a General Insurance Contract or a Pure Protection Contract but is not a Long-Term Care Insurance Contract
Off-Balance Sheet Asset Risk Component	The capital component identified in paragraph 5 (Off-Balance Sheet Asset Risk Component) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR)).
Off-Balance Sheet Liability Risk Component	The capital component identified in paragraph 6 (Off-Balance Sheet Liability Risk Component) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR)).
Operational Risk Requirement	The capital component identified in paragraph 2.4 (Operational Risk Requirement) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR))
Outstanding Claims Risk Component	The capital component identified in paragraph 8 (Outstanding Claims Risk Component) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR))



Packaged Product	(a) a Life Policy; or  (b) a Unit in a Collective Investment Scheme
PCR	Prescribed Capital Requirement
Policyholder	the Person who for the time being is the legal holder of a Contract of Insurance, including any Person to whom, under the Contract of Insurance, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided
Premium Risk Component	The capital component identified in paragraph 7 (Premium Risk Component) of PINS Schedule 5 (Calculation of Prescribed Capital Requirement (PCR))
Product Disclosure Document	for a Packaged Product produced by an  Authorised Firm: a statement in writing prepared by the firm for the product in accordance with COB 5.6 (Packaged products - additional disclosure)
Pure Protection Contract	a Long-Term Insurance Contract that meets all of the following conditions:  (a) the benefits under the contract are payable only on death or for incapacity due to injury, sickness or infirmity;  (b) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium;  (c) the contract makes no provision for its conversion or extension in a way that would result in it ceasing to comply with paragraph (a) or (b);  (d) the contract is not a Contract of Reinsurance.
Risk Management Policy	a written policy that complies with the requirements of PINS 3.1.3 (Contents of Risk Management Policy)
Risk Management Strategy	a written strategy document that complies with the requirements of PINS 3.1.2 (Contents of Risk Management Strategy)
Risk Officer	the Approved Individual performing the role identified at PINS 2.2.3 (Risk Officer)
Solvency Reference Date	The date at which an Insurer's compliance with the requirements of PINS 5 (Capital adequacy requirements) is assessed.



## AIFC INSURANCE AND REINSURANCE PRUDENTIAL RULES

Tier 1 Capital	The components of capital identified at paragraph 3 (Components of Tier 1 Capital) of PINS Schedule 3 (Calculation of Eligible capital)
Tier 2 Capital	The components of capital identified at paragraph 4 (Components of Tier 2 Capital) of PINS Schedule 3 (Calculation of Eligible capital)