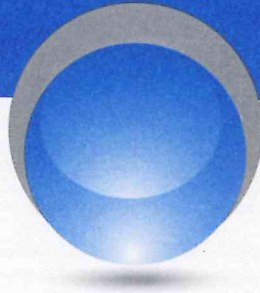


THE INSURANCE COMMISSION OF THE BAHAMAS



Date: MARCH 22, 2016

To: ALL REGISTERED LONG-TERM INSURERS

Subject: RISK-BASED CAPITAL FRAMEWORK – ASSET DEFAULT FACTORS

Following the issuance of the proposed Capital Adequacy Guidelines for Long-term Insurers and a review of the comments received during the consultative period, the Commission has conducted a comprehensive analysis of the current asset discount factors outlined in Regulation 72 of the Insurance (General) Regulations, 2010.

As the Commission transitions to a more risk-sensitive capital adequacy model, we are proposing to revise the current asset discount factors as outlined below in “Table A”. In addition to the proposed revisions to the asset discount factors, the Commission intends to amend the Capital Adequacy Guidelines and accompanying worksheet, removing the asset discounts from the calculation to determine “Available Capital” and including a separate charge for “Asset Default Risk” in the calculation to arrive at “Required Capital”.

Please provide any comments on the proposed revisions outlined in Table A by April 30, 2016.

Should you have any queries, please contact Kencil McPhee (kencilmcphee@icb.gov.bs) at the Commission (telephone – (242)-397-4183).

Michele C. E. Fields
Superintendent of Insurance

TABLE A: Asset Default Risk Factors for Insurance Companies – Reg 72

| Asset Type | Bahamas | |
|---|---|---------|
| | Proposed | Current |
| Cash – Bank balances and Bank deposits | 0% | 0% |
| Bank Certificate of Deposits | 0% | 0% |
| Treasury Bills | 0% | 0% |
| Treasury Notes/Bonds | 0% | 0% |
| Government and Government Guaranteed Securities | 0% | 0% |
| Government Corporation / Agency Bonds (Not Guaranteed) | 10% | 10% |
| Corporate Bonds – Listed | 20% | 20% |
| Corporate Bonds – Not Listed | 20% | 25% |
| Real Estate | 15% | 15% |
| Equity Securities – Listed | 20% | 20% |
| Equity Securities – Not Listed | 20% | 25% |
| Preferred Shares – Listed | 15% | 20% |
| Preferred Shares – Not Listed | 15% | 25% |
| Other Debt Instruments – Listed | 20% | 20% |
| Other Debt Instruments – Not Listed | 20% | 25% |
| Mortgage Loans – Performing | 0% | 0% |
| Mortgage Loans – Non Performing (Overdue 90 days or more) | 20% | 20% |
| Mutual Funds | 20% | 20% |
| Investments in Related Parties | Deduct from Capital if fin. Sub; 100% otherwise | 100% |
| Other Investments | 25% | 25% |
| Policy Loans | 0% | 0% |
| Due from Reinsurers | 0% | 0% |
| Deferred acquisition costs | 100% | 100% |
| Receivable from Agents | | |
| 0 – 30 days outstanding | 10% | 20% |
| 31 – 60 days outstanding | 15% | 50% |
| Over 60 days | 25% | 100% |
| Premium Receivables | | |
| 0 – 30 days outstanding | 0% | 0% |
| 31 – 60 days outstanding | 15% | 50% |
| Over 60 days | 15% | 100% |



| Asset Type | Bahamas | |
|--|----------|---------|
| | Proposed | Current |
| Interest Receivable on Investments | 0% | 0% |
| Intangible Assets | 100% | 100% |
| Land and Building (used in Operations) | 25% | 25% |
| Accounts Receivable | 15% | 50% |
| Prepayments | 15% | 100% |
| Equipment and Machinery | 15% | 50% |
| Office Furniture and Fixtures | 15% | 85% |
| Computer Software | 15% | 100% |
| Leasehold Improvements | 15% | 100% |
| Motor Vehicles | 15% | 100% |
| Other Assets | 25% | 100% |

NB. Highlighted boxes illustrate the actual proposed factor revisions.

