

# The Insurance Commission of The Bahamas Branch Operations (Foreign Companies) Statement of Principles

SEPTEMBER 2011

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## I. Statement of Objective

The objective of this document is to outline the principles upon which the ICB will base its supervision framework for foreign companies (hereafter called branches).

## II. Introduction

A branch refers to an insurance company that is incorporated outside of The Bahamas registered to carry on insurance business in and from within the jurisdiction. A branch is fundamentally different from other structures in that it is not a separate legal entity; rather it is an extension of the legal entity. ICB recognizes the unique nature of branches; hence these principles seek to provide the minimum guidance with respect to the requirements needed to adequately satisfy the requirements of the insurance legislation and overall regulatory framework.

As part of its supervisory framework, ICB evaluates branches against legislative and regulatory requirements as well as the expectation of this statement and other guidance applicable to branches.

## III. Principles

The following principles will be used by ICB in its supervision of branches.

1. The Branch regime is designed to create an even playing field between branches and other domestic insurers.
  2. The Branch regime is also designed to provide an adequate level of protection for Bahamian policyholders.
  3. New branch application will only be considered if the legal entity is a well established, financially strong, well-managed organization subject to consolidated supervision by approved supervisor(s). This includes supervisors with whom ICB has information sharing arrangement.
  4. ICB will maintain relationships with the home regulators of branches and rely on the Consolidated supervision of these regulators with respect to the legal/corporate entity.
  5. Branches must appoint a qualified Principal Representative resident in The Bahamas who will be responsible for the operations of the branch.
  6. Branches must vest adequate and qualified assets in The Bahamas to cover policyholder liabilities in The Bahamas.
  7. Branches must establish the required statutory deposit for the class of business registered.
  8. Branches must, at all times, meet the required margin of solvency.
  9. Branches must have adequate books, records and systems in The Bahamas readily accessible to the ICB.
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10. Branches must maintain segregated branch accounts and prepare audited financial statements.
  11. All policies written by the branch must be signed or counter signed by a representative on behalf of the Company who is resident in The Bahamas.

#### IV. Matters to be addressed

The following are some of the issues or matters that the ICB has considered with respect to branches. Act refers to Insurance Act, 2005 and Regulations refers to Insurance (General) Regulations.

1. The regulations will be amended to include all classes of general insurance in the vested asset regime as currently only motor and property insurance are covered under Regulation 74.
2. The regulations will be amended to provide for an appropriate computation for branch solvency. For branches the commission will apply the capital equivalency method of testing solvency rather than using the formula currently in the regulations. The assets considered for solvency must be specifically allocated to the branch and must be in the Bahamas.

The solvency test for branches is as follows:

<b>Life</b>	<b>General</b>
<b>Required Margin of Solvency</b> - Greater of 20% of gross premium income, including annuity premiums or \$2million.	<b>Required Margin of Solvency</b> - Greater of the sum of 20% of net premium (subject to reinsurance restrictions) or \$1million.
Admissible Assets Less Liabilities Equal <b>Available Margin of solvency</b>	Admissible Assets Less Liabilities Equal <b>Available Margin of solvency</b>
Available Margin of Solvency Less Required Margin of solvency Equal Surplus/Shortfall	Available Margin of solvency Less Required Margin of solvency Equal Surplus/Shortfall Equal

Life insurers may not net premiums for calculating solvency, however they are allowed to net liabilities as pursuant to regulation 76.

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3. The following assets are permissible under the statutory deposit (S.43 of the Act) and statutory fund (S. 45 of the Act).

a) Statutory Deposit (S.43):

- Cash,
- Securities of or guaranteed by the Bahamas Government
- Bank certificates of deposit
- Irrevocable letters of credit up to 15% of the total to be deposited and vested. Must be written on an approved financial institution.

b) Statutory Fund (S.45)

The permissible assets of the fund will be aligned with qualifying assets (Regulations 70) for solvency to the extent practical. As such, the assets will also be valued/discounted in the same manner as for solvency. Thus, for the Statutory Fund, only the following assets are permissible at the stated discount rates:

- Cash (0%)
- Bank certificates of deposit (0%)
- Bahamas Government or other approved government bonds, securities or securities guaranteed by the Government (0%)

Liabilities to be covered by statutory fund may be reduced by:

- Reinsurance up to 75% of the reinsured portion of liability
- Letter of credit up to 15% of total assets to be vested (and deposited where used for deposit requirements). Must be written on an approved financial institution.
- Receivables from agents and policyholders (at the same discounts rates used for solvency).

4. In accordance with regulation 59 the reference to assets for foreign insurers refers to assets in The Bahamas: -

59 (a) with respect to a registered foreign insurer, to an asset or to class of assets of a registered insurer shall be construed as a reference to an asset, or to the assets, of that class, included in the assets in The Bahamas of the registered foreign insurer.

The Commission will only consider the assets of the branch that are located in The Bahamas or vested in trust in The Bahamas to be admissible for solvency purposes.