INSURANCE (VALUATION AND SOLVENCY) (AMENDMENT) REGULATIONS 2024

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Statutory Document No. 20XX/XXXX

Insurance Act 2008

INSURANCE (VALUATION AND SOLVENCY) (AMENDMENT) REGULATIONS 2024

Laid before Tynwald:
Coming into Operation: *30 June 2024*

The Isle of Man Financial Services Authority makes the following Regulations under sections 12, 12A, 47 and 50 of, and Schedule 7 to, the Insurance Act 2008 after carrying out the consultation required by section 50(3) of that Act.

1 Title

These Regulations are the Insurance (Valuation and Solvency) (Amendment) Regulations 2024.

2 Commencement

These Regulations come into operation on 30 June 2024[1].

PART 1

AMENDMENTS TO VALUATION AND SOLVENCY REGULATIONS

3 Regulation 2 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 2 (Commencement) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021, insert footnote (1)—

> “1 Under section 50(4) of the Insurance Act 2008, regulations shall be laid before Tynwald as soon as practicable after they are made, and if Tynwald at the sitting at which the regulations are laid, or at the next following sitting, resolves that they shall be annulled, the regulations shall cease to have effect from that time. ”

[1] Under section 50(4) of the Insurance Act 2008, regulations shall be laid before Tynwald as soon as practicable after they are made, and if Tynwald at the sitting at which the regulations are laid, or at the next following sitting, resolves that they shall be annulled, the regulations shall cease to have effect from that time.

4 Regulation 24 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 24 (calculation of the risk margin) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021[2]—

(a) for paragraph (3) substitute—

"(3) An insurer's risk margin ('*RM*') must be calculated using the following formula—

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR_{RI}(t) \times \max(\lambda^t, \lambda_{floor})}{(1 + r_{t+1})^{(t+1)}}$$

where—

(a) *CoC* denotes the cost-of-capital rate under paragraph (4);

(b) $SCR_{RI}(t)$ denotes the SCR of the reference insurer after *t* years, determined under paragraph (6);

(c) r_{t+1} denotes the basic risk-free interest rate in the local currency (as defined in regulation 47) of the insurer for the maturity of $t + 1$ years;

(d) λ denotes the risk tapering factor, and equals 0.9;

(e) λ^t denotes the risk tapering factor to the power of *t* years;

(f) λ_{floor} denotes the floor of the risk tapering factor, and equals 0.25."; and

(b) in paragraph (4) for "5%" substitute "4%".

5 Regulation 28 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 28 (solvency capital requirement) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021,

(a) for paragraph (1) substitute—

"(1) The SCR for a dormant insurer is the amount of regulatory capital necessary to ensure that its assets exceed all of its liabilities, including those relating to the insurer's operational management and regulatory compliance. ".

6 Regulation 45 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 45 (equity risk capital requirement) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (1) substitute—

[2] SD 2021/0273

"(1) In this regulation—

"**equity risk**", in relation to an insurer, is the sensitivity of the values of any or all of its assets, liabilities and financial instruments (as applicable) to changes in the level or volatility of the market price of equities.

"**type 1 equities**" comprise equities listed in stock exchanges in the countries which are members of the EEA or the OECD;

"**type 2 equities**" comprise —

(a) equities listed in stock exchanges in countries which are not members of the EEA or the OECD;

(b) equities which are not listed, hedge funds, commodities and other alternative investments;

(c) all assets and indirect exposures allocated by the insurer to type 2 equities through use of the approach set out in regulation 40(8) and intangible assets, that are not already included in the—

(i) interest rate risk capital requirement defined in regulation 42;

(ii) property risk capital requirement defined in regulation 46; or

(iii) spread risk capital requirement defined in regulation 49; and

(d) participations that are not type 1 equity holdings.".

7 Regulation 94 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 94 (standard deviation for NSLT health premium and reserve risk) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (5) substitute—

"(5) The standard deviation for NSLT health gross premium risk for each segment is —

Segment, *s*	**Standard deviation for premium risk (gross of reinsurance)**
A	5.0%
B	8.5%
C	9.6%
D	17.0%

"; and

(b) for paragraph (6) substitute—

"(6) The standard deviation for NSLT health reserve risk net of reinsurance for each segment is —

Segment, *s*	Standard deviation for reserve risk (net of reinsurance)
A	5.7%
B	14%
C	11%
D	17%

".

8 Regulation 97 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 97 (health catastrophe mass accident risk capital requirement) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (5) substitute—

"(5) In respect of paragraph (2)(b) the event types e to be considered in the mass accident scenario, and the corresponding ratios x_e are as follows—

Event type *e*	x_e
Death caused by an accident	10.0%
Permanent disability caused by an accident	3.5%
Disability lasting 12 months, caused by an accident	16.5%
Medical treatment caused by an accident	30.0%

".

9 Regulation 99 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 99 (health catastrophe pandemic capital requirement) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (2) substitute—

"(2) Under regulation 96(2)(c), an insurer's health catastrophe pandemic risk capital requirement is the loss in the insurer's basic own-funds resulting from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is calculated as follows—

$$L_p = 0.000075 \cdot E + 0.4 \cdot \sum_{C} N_C \cdot M_C$$

where

(a) E is the insurer's pandemic exposure to income protection contracts determined under paragraph (3);

(b) the sum includes all countries c;

(c) N_C denotes the number of insured persons which meet the following requirements —

(i) the insured persons are inhabitants of country *c;* and

(ii) the insured persons are covered by medical expense insurance obligations, other than workers compensation insurance, that cover medical expenses resulting from an infectious disease;

(d) M_C denotes the expected average amount payable per insured person or country *c* in case of a pandemic. »; and

(b) After paragraph (3) insert—

(2) «(4) For all countries, the expected average amount payable by insurers per insured person of a particular country c in case of a pandemic is equal to the following —

$$M_C = \sum_{h} H_h \cdot CH_{(h,C)}$$

where —

(a) the sum includes the types of healthcare utilisation *h* as set out in paragraph (5);

(b) H_h denotes the ratio of insured persons with clinical symptoms utilising healthcare *h* as set out in paragraph (5);

(c) $CH_{(h,C)}$ denotes the best estimate of the amounts payable by insurers for an insured person in country *c* in relation to medical expense insurance obligations, other than workers compensation insurance obligations, for healthcare utilisation *h* in the event of a pandemic.

(5) The types of healthcare utilisation *h* for use in paragraph (4)(a) and the ratios of insured persons utilising healthcare *h* for use in paragraph (4)(c) are as follows—

Healthcare Utilisation Type	Ratio of persons with clinical symptoms
Hospitalisation	1%
Consultant with a medical professional	20%
No formal medical care sought	79%

»

10 Regulation 109 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 109 (use of eligible own-fund items to meet capital requirements) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021

(a) for paragraph (2) substitute—

«(2) At a minimum an insurer must hold eligible own-fund items of sufficient quality as follows—

(a) to meet its SCR—

(i) the amount of Tier 1 own-fund items must be equal to or greater than 50% of the SCR;

(ii) the amount of Tier 3 own-fund items must be less than 15% of the SCR; and

(iii) the sum of Tier 2 and Tier 3 own-fund items must not exceed 50% of SCR, subject to the restriction in sub-paragraph (ii); and

(b) to meet its MCR —

(i) the amount of Tier 1 own-fund items must be equal to or greater than 80% of the MCR; and

(ii) the amount of Tier 2 own-fund items must not exceed 20% of the MCR. »

11 Regulation 111 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 111 (ancillary own-funds) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (2) substitute—

«(2) An ancillary own-fund item of an insurer may comprise the following eligible own-fund items to the extent they are not basic own-fund items as determined under regulation 110—

(a) called up but unpaid share capital that is unpaid for more than 3 months, unpaid and uncalled ordinary share capital, initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type entities or preference shares;

(b) a letter of credit or a guarantee provided to the insurer; or

(c) any other legally binding financial commitments provided to the insurer. ”

12 Regulation 115 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 115 (tier 2 basic own-funds) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (1) substitute—

“(1) The following basic own-fund items are classed as Tier 2, if they meet all of the features in paragraph (2) —

(a) called up but unpaid ordinary share capital and the related share premium account;

(b) initial funds, members' contributions or the equivalent basic own-fund item for a mutual or mutual-type insurer;

(c) subordinated mutual member accounts;

(d) preference shares and the related share premium account;

(e) any other item that meets the requirements of paragraph (2), subject to the approval of the Authority; and

(f) subordinated liabilities;” ; and

(b) For paragraph (2) substitute —

“(2) The required features for an own-fund item to be classed as Tier 2 are —

(a) the item ranks after the claims of all policyholders and non-subordinated creditors of the insurer;

(b) the item is undated or has an original maturity of at least 10 years;

(c) the first contractual opportunity to repay or redeem the item does not occur before 5 years from the date of issuance;

(d) the item may include limited incentives to repay or redeem that item, provided that these do not come into effect before 10 years from the date of issuance, as long as these incentives do not prevent any of the other requirements of this regulation from being met;

(e) the item provides for the suspension of repayment or redemption of that item in circumstances where the insurer is not in compliance with its SCR or the repayment or redemption of that item would cause such non-compliance;

(f) the item meets the Tier 1 features set out in regulation 114(4), but the limit set in regulation 109(3) for items of its type, is exceeded so it is instead classified as Tier 2 under regulation 109(2)(a)(ii);

(g) for items referred to in paragraphs (1)(a), (1)(b) and (1)(d), unless otherwise specified under Manx legislation, the time period between calling up to pay and the item becoming paid-in must not be longer than three months, and during this period, these own-fund items are considered called up but unpaid and are deemed available to absorb losses; and

(h) for items which are considered called-up but unpaid, the contractual terms of the own-fund item must include the obligation for the unpaid amount to be paid in the event of the insurer becoming insolvent or entering into wind-up procedures prior to payment of called up items being received. »

13 Regulation 116 of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 116 (tier 3 basic own-funds) of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021, after paragraph (2) insert—

«(3) Any basic own-fund items referred to in regulations 114(1) or regulation 115(1) that do not meet the features set out in regulations 114(4) and 115(2) and which have not been approved as ancillary own-funds under Regulation 111(1) are classified as Tier 3 basic own-fund items. »

14 Schedule 1 to the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 amended

In schedule 1 (requirements for the use of external credit assessments) to the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021, for the whole text substitute—

«(1) An insurer must only use external credit assessment issued by an ECAI that is approved by the Authority.

(2) An insurer may nominate a different ECAI for each of its asset, liability and counterparty exposures. When nominating an EACI the following requirements must be met—

(a) an insurer must use the same EACI for all exposures of a particular type;

(b) an insurer must use its nominated ECAIs in a continuous and consistent way over time;

(c) an insurer must only use nominated ECAI credit assessments that take into account all amounts of principal and interest owed to it;

(d) if only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the capital requirements for that item;

(e) if two credit assessments are available for the same item and they differ, the assessment that would generate the highest solvency capital requirement must be used;

(f) if more than two credit assessments are available for the same item and they all differ, the insurer must only consider the two assessments that would generate the lowest solvency capital requirements, and paragraph (e) applies to these two assessments;

(g) both solicited and unsolicited credit assessments from ECAIs must be taken into account; and

(h) if only one credit assessment is available for a securitisation position it must be assumed that no credit assessment is available and the capital requirements for that item will be derived as if no credit assessment by a nominated ECAI is available.

(3) Credit assessments from a nominated ECAI for an issuer within a corporate group must not be used as the credit assessment for another issuer within the same corporate group.

(4) Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, that credit assessment shall be used.

(5) Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, that credit assessment must be used in either of the following cases —

(a) it produces the same or higher capital requirement than would otherwise be the case and the exposure in question ranks pari passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant; or

(b) it produces the same or lower capital requirement than would otherwise be the case and the exposure in question ranks pari passu or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant;

and in all other cases, insurers must consider that there is no credit assessment by a nominated ECAI available for the exposure. ”

15 Regulation 18 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021[3] amended

In regulation 18 (calculation of the best estimate) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (2) substitute—

“(2) Unless the Authority specifies otherwise, where an insurer has demonstrated to its board of directors that it is not proportionate for it to determine the best estimate in accordance with paragraph (1), it may instead use its accounting provisions to determine the best estimate. ”

16 Regulation 21 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 21 (calculation of the risk margin) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) in paragraph (2) for “5%” substitute “4%”; and

(a) for paragraph (3) substitute—

“(3) For a class 12 insurer, or an insurer who is not a class 12 insurer where it has demonstrated to its board of directors that it is not proportionate for it to determine the risk margin in accordance with paragraph (2), the insurer may instead use one of the following methods to calculate the risk margin—

(a) estimate the risk margin as 4% multiplied by the modified duration of the best estimate, gross of amounts recoverable from reinsurance contracts and special purpose vehicles, for each line of business set out in Schedule 6; or

(b) estimate the risk margin as a percentage of the best estimate, gross of amounts recoverable from reinsurance contracts and special purpose vehicles, for each line of business.”; and

(b) for paragraph (4) substitute—

[3] SD 2021/0273

“(4) Where an insurer uses a method described under paragraph (3), it must explain the use of the method, including the derivation of the percentage applied to the best estimate, in the board report under regulation 8. ”

(c) after paragraph (7) insert—

“(8) Where an insurer determines its best estimate under regulation 18(1) it must use the full method of calculation in paragraph (2) to determine its risk margin. ”

17 Regulation 23 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 23 (solvency capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (1) substitute—

“(1) The SCR for a dormant insurer is the amount of regulatory capital necessary to ensure that its assets exceed all of its liabilities, including those relating to the insurer's operational management and regulatory compliance. ”; and

(b) for paragraph (4) substitute—

“(4) The standard formula approach used to determine an insurer's SCR is the sum of —

(a) a BSCR as determined in regulation 25;

(b) a capital requirement for operational risk as determined in regulation 27;

(c) a capital add-on as may be specified by the Authority, determined in regulation 24; and

(d) an adjustment for the loss-absorbing capacity of deferred taxes as determined in regulation 26A. ”

18 New Regulation 26A of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

After regulation 26 (association of credit assessments to credit quality steps) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 insert new regulation—

“**26A Adjustment for the loss-absorbing capacity of deferred taxes**

(1) The adjustment for the loss-absorbing capacity of an insurer's deferred taxes reflects potential compensation from unexpected losses, through a simultaneous decrease in the insurer's deferred taxes.

(2) The adjustment to an insurer's SCR for the loss-absorbing capacity of deferred taxes referred to in regulation 23(4) is equal to the change in the value of an insurer's deferred taxes resulting from an instantaneous loss of an amount equal to the sum of the following—

(a) the insurer's BSCR determined under regulation 25; and

(b) the capital requirement for operational risk determined under regulation 27.

(3) For the purpose of paragraph (2), and subject to paragraphs (4) to paragraph (6), deferred taxes must be valued under regulation 14(12).

(4) Where the loss referred to in paragraph (2) would result in an increase in an insurer's deferred tax assets, the insurer must not utilise this increase for the purpose of this adjustment unless it can demonstrate that future profits will be available in accordance regulation 14(14), taking into account the magnitude of the loss referred to in paragraph (2) and its impact on the insurer's current and future financial situation.

(5) For the purpose of paragraph (2), a decrease in the insurer's deferred tax liabilities or an increase in its deferred tax assets must result in a negative adjustment for the loss-absorbing capacity of its deferred taxes.

(6) If the calculation of the adjustment under paragraph (2) results in a positive change of an insurer's deferred taxes, the adjustment is nil.

(7) If it is necessary to allocate the loss referred to in paragraph (2) to its causes in order to calculate the adjustment for the loss-absorbing capacity of an insurer's deferred taxes, the insurer must allocate the loss to the risks that are captured by the BSCR in regulation 25. The allocation must be consistent with the contribution of the specific risk to the BSCR. ❞

19 Regulation 33 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 33 (equity risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (1) substitute—

❝(1) In this regulation—

"type 1 equities" comprise equities listed in stock exchanges in the countries which are members of the EEA or the OECD;

"type 2 equities" comprise —

(a) equities listed in stock exchanges in countries which are not members of the EEA or the OECD;

(b) equities which are not listed, hedge funds, commodities and other alternative investments;

(c) all assets and indirect exposures allocated by the insurer to type 2 equities through use of the approach set out in regulation 30(7) and intangible assets, that are not already included in the—

(i) interest rate risk capital requirement defined in regulation 32;

(ii) property risk capital requirement defined in regulation 34; or

(iii) spread risk capital requirement defined in regulation 36; and

(d) participations that are not type 1 equity holdings.»

20 Regulation 36 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 36 (spread risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (8) substitute—

«(8) In paragraphs (2)(a), (2)(b) and (7) the modified duration must not be less than 1 year. »

21 Regulation 38 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 38 (counterparty default risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (3) substitute—

«(3) An insurer's type 1 exposures to single counterparties cover default risk other than on receivables and the following types of exposures are classed as type 1 exposures—

(a) risk mitigation arrangements such as reinsurance arrangements (including stop loss arrangements), special purpose vehicles and insurance securitisations;

(b) derivatives, other than credit derivatives covered in the spread risk submodule;

(c) loans made by the insurer to an entity which is a member of the same corporate group as the insurer;

(d) cash at bank;

(e) commitments received by the insurer that have been called up but are unpaid including—

(i) called up but unpaid ordinary share capital and preference shares;

(ii) called up but unpaid legally binding commitments to subscribe and pay for subordinated liabilities;

(iii) called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type insurers;

(iv) called up but unpaid guarantees;

(v) called up but unpaid letters of credit; and

(vi) called up but unpaid claims that mutual or mutual-type associations may have against their members by way of a call for supplementary contributions;

(f) legally binding commitments that the insurer has provided or arranged and that may create payment obligations depending on the credit standing or default on a counterparty including guarantees, letters of credit, letters of comfort that the insurer has provided;

(g) exposures to entities that are members of the same corporate group as the insurer, other than those included in sub-paragraph (c) and paragraph (4)(a);

(h) mortgage loans; and

(i) deposits with ceding insurers. ”; and

(b) for paragraph (4) substitute—

“(4) An insurer’s type 2 exposures to single counterparties cover default risk on receivables and the following types of exposures are classed as type 2 exposures—

(a) receivables and recoverables (other than those in relation to reinsurance arrangements under paragraph (3)(a) or group entities under paragraph (3)(g));

(b) policyholder debtors;

(c) prepayments and deferred expenses; and

(d) exposures that are neither captured in the spread risk capital requirement under regulation 36 or as a type 1 exposure in paragraph (3). »

22 Regulation 40 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 40 (premium and reserve risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (6) substitute—

«(6) The premiums in paragraph (5) must be net of commission and gross premiums in respect of reinsurance contracts that meet the requirements of regulation 65. »

23 Regulation 41 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 41 (lapse risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (1) substitute—

«(1) The capital requirement for lapse risk under regulation 39(1)(b) is the reduction in value of an insurers basic own-funds following an instantaneous permanent decrease in the profit anticipated from insurance contracts. »

24 Regulation 54 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 54 (fire risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (2) substitute—

«(2) The capital requirement for fire risk is the reduction in value of an insurer's basic own-funds following an instantaneous permanent loss in relation to the insurance contract, where the amount of the loss is the sum of —

(a) the insurer's largest fire concentration risk determined under paragraph (3);

(b) an adjustment to reflect contracts that place a cap on the level of risk that the insurer is exposed to; and

(c) an adjustment to reduce the loss to reflect any applicable risk mitigating techniques employed by the insurer. »; and

(b) for paragraph (3) substitute —

« (3) For the purpose of paragraph (2) the largest fire concentration risk is the set of buildings with the largest gross sum insured where—

(a) all buildings are partly or fully located within a radius of 200 meters; and

(b) the sum insured only includes obligations relating to insurance contracts that would pay out in the event of fire or explosion related damage to that set of buildings. »

25 Regulation 59 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 59 (NSLT health premium and reserve risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for paragraph (7) substitute—

«(7) The premiums used to determine the premium volume measure in paragraphs (5) and (6) must be net, after deduction of commission and gross premiums for reinsurance contracts that meet the requirements of regulation 65. »

26 Regulation 64 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 64 (pandemic risk capital requirement) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (2) substitute—

«(2) The capital requirement for pandemic risk is the reduction in value of an insurers basic own-funds following an instantaneous permanent loss in relation to the insurance contract, where the amount of the loss is the sum of—

(a) 0.000075 multiplied by the total sum insured payable across all insured lives covered by the income protection insurance, in the event the insured suffers a permanent work disability caused by an infectious disease;

(b) 0.4 multiplied by the sum of the following across all countries where the insurer provides cover —

(i) for each country, the multiple of —

(A) the number of insured persons covered by medical expense insurance that covers medical expenses resulting from an infectious disease; and

(B) the expected average amount payable by the insurer per insured person in case of a pandemic;

(c) an adjustment to reflect contracts within the segment that place a cap on the level of risk that the insurer is exposed to; and

(d) an adjustment to reduce the loss to reflect any applicable risk mitigating techniques employed by the insurer. ”; and

(b) after paragraph (3) insert—

“(4) Under paragraph (2)(b)(i)(B) the expected average amount payable in a pandemic by the insurer per insured person is the sum of the following across each type of healthcare utilisation set out in the table in Schedule 2, Paragraph 9(10) —

(a) for each type of healthcare utilisation the multiple of —

(i) the ratio of insured persons with clinical symptoms for a particular healthcare utilisation, as set out in the table in Schedule 2, Paragraph 9(10); and

(ii) the best estimate of the amounts payable by the insurer for an insured person in a particular country in relation to medical expense insurance under each healthcare utilisation in the event of a pandemic. ”

27 Regulation 73 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 73 (use of eligible own-fund items to meet capital requirements) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021

(a) for paragraph (2) substitute—

“(2) At a minimum an insurer must hold eligible own-fund items of sufficient quality as follows—

(a) to meet its SCR—

(i) the amount of Tier 1 own-fund items must be equal to or greater than 50% of the SCR;

(ii) the amount of Tier 3 own-fund items must be less than 15% of the SCR; and

(iii) the sum of Tier 2 and Tier 3 own-fund items must not exceed 50% of SCR, subject to the restriction in sub-paragraph (ii); and

(b) to meet its MCR —

(i) the amount of Tier 1 own-fund items must be equal to or greater than 80% of the MCR; and

(ii) the amount of Tier 2 own-fund items must not exceed 20% of the MCR. ”

28 Regulation 75 of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In regulation 75 (ancillary own-funds) of the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (2) substitute—

“(2) An ancillary own-fund item of an insurer may comprise the following eligible own-fund items to the extent they are not basic own-fund items as determined under regulation 74—

(a) called up but unpaid share capital that is unpaid for more than 3 months, unpaid and uncalled ordinary share capital, initial funds, members’ contributions or the equivalent basic own-fund item for mutual and mutual-type entities or preference shares;

(b) a letter of credit or a guarantee provided to the insurer; or

(c) any future claims which mutual or mutual type associations may have against their members by way of a call for supplementary contributions, within the following 12 months; or

(d) any other legally binding financial commitments provided to the insurer. ”

29 Paragraph 4 of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 4 (currency risk capital factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for sub-paragraph (1) substitute—

> «(1) The currency groupings for use in regulation 35(4)(b) are determined by the Authority and set out in the table below —

Foreign Currency Group Table 1			
1	**2**	**3**	**4**
Euro	US Dollar	Singapore Dollar	Australian Dollar
Swiss Franc	Chinese Yuan Renminbi	Indian Rupee	New Zealand Dollar
Swedish Krona	Hong Kong Dollar	Malaysian Ringgit	South African Rand
Norwegian Krone	Taiwan Dollar	Thai Baht	
Danish Krone	Saudi Riyal		
Polish Zloty			
Czech Koruna			
Hungarian Forint			
Bulgarian Lev			
Croatian Kuna			
Romanian Leu			

Foreign Currency Group Table 2						
5	**6**	**7**	**8**	**9**	**10**	**11**
Canadian Dollar	Japanese Yen	Russian Ruble	Turkish Lira	South Korean Won	Icelandic Krona	All other currencies not already included in columns 1-10
Brazilian Real						
Mexican Peso						
Chilean Peso						
Colombian Peso						

”

30 Paragraph 5 of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 5 (spread risk capital factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for sub-paragraph (2) substitute—

“(2) The spread risk credit quality step factors to be used for exposures to bonds and loans in regulation 36(5) are—

	Credit quality step						
Dur$_i$	**0**	**1**	**2**	**3**	**4**	**5, 6**	**Unrated (including unrated incorporated banks)**
≤ 5	$0.9\% \cdot dur_i$	$1.1\% \cdot dur_i$	$1.4\% \cdot dur_i$	$2.5\% \cdot dur_i$	$4.5\% \cdot dur_i$	$7.5\% \cdot dur_i$	$3.0\% \cdot dur_i$
5 <dur≤ 10	$4.5\% + 0.5\% \times (dur_i - 5)$	$5.5\% + 0.6\% \times (dur_i - 5)$	$7.0\% + 0.7\% \times (dur_i - 5)$	$12.5\% + 1.5\% \times (dur_i - 5)$	$22.5\% + 2.5\% \times (dur_i - 5)$	$37.5\% + 4.2\% \times (dur_i - 5)$	$15\% + 1.7\% \times (dur_i - 5)$
10 <dur≤ 15	$7.0\% + 0.5\% \times (dur_i - 10)$	$8.5\% + 0.5\% \times (dur_i - 10)$	$10.5\% + 0.5\% \times (dur_i - 10)$	$20.0\% + 1.0\% \times (dur_i - 10)$	$35.0\% + 1.8\% \times (dur_i - 10)$	$58.5\% + 0.5\% \times (dur_i - 10)$	$23.5\% + 1.2\% \times (dur_i - 10)$
15 <dur≤ 20	$9.5\% + 0.5\% \times (dur_i - 15)$	$11.0\% + 0.5\% \times (dur_i - 15)$	$13.0\% + 0.5\% \times (dur_i - 15)$	$25.0\% + 1.0\% \times (dur_i - 15)$	$44.0\% + 0.5\% \times (dur_i - 15)$	$61.0\% + 0.5\% \times (dur_i - 15)$	
> 20	$12.0\% + 0.5\% \times (dur_i - 20)$	$13.4\% + 0.5\% \times (dur_i - 20)$	$15.5\% + 0.5\% \times (dur_i - 20)$	$30.0\% + 0.5\% \times (dur_i - 20)$	$46.6\% + 0.5\% \times (dur_i - 20)$	$63.5\% + 0.5\% \times (dur_i - 20)$	$35.5\% + 0.5\% \times (dur_i - 20)$

Where

(a) dur_i is the modified duration for that exposure;

(b) the modified duration must not be lower than 1.

(c) for variable interest rate bonds or loans, *dur$_i$* must be equivalent to the modified duration of a fixed interest rate bond or loan of the same maturity and with coupon payments equal to the forward interest rate. ”

31 Paragraph 6 of Schedule 2 Paragraph to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 6 (market concentration risk factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for sub-paragraph (3) substitute—

"(3) The market concentration risk credit quality factors for use in regulation 37(7) are, for a class 12 insurer—

Credit quality step	0	1	2	3	4	5,6, unrated (excluding unrated incorporated banks)	Unrated incorporated banks
Factor	6%	6%	10%	13%	36%	36%	32%

Or else, for an insurer who is not a class 12 insurer—

Credit quality step	0	1	2	3	4	5,6, unrated (excluding unrated incorporated banks)	Unrated incorporated banks
Factor	12%	12%	21%	27%	73%	73%	64%

"; and

(b) after sub-paragraph (3) insert—

"(4) The exposure threshold factor for unrated incorporated banks must only be used for exposures that are banks who are incorporated in the Isle of Man and licensed under the Financial Services Act 2008 to conduct deposit taking activity, that do not have an assigned credit quality step. "

32 Paragraph 7 of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 7 (counterparty default risk factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for paragraph (4) substitute—

"(4) The probability of default factors for use in regulation 38(17) are assigned using the credit quality step of the counterparty using the table below and applying subparagraphs (5) to (10)—

CQS/Other	Probability of Default
0	0.002%
1	0.010%
2	0.050%
3	0.240%
4	1.200%
5,6	4.200%
Unrated incorporated banks	0.500%
Exposures to Approved Entities List in Schedule 4	0%

"

; and

(b) for sub-paragraph (8) substitute—

"(8) Where the insurer has made an uncollateralised loan to, or holds a deposit or investment in, an undertaking within the same corporate group, where that undertaking has not been assigned a credit rating, but the parent of the group does have a credit rating, the insurer can use the rating of the parent when assessing the probability of default of the counterparty, but only when that undertaking is substantially acting as the treasury function for the group. "

33 Paragraph 8 of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 8 (underwriting risk factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for sub-paragraph (8) substitute—

"(8) The premium risk standard deviation factors and reserve risk standard deviation factors in regulations 40(11)(a) and 40(12)(a) for each segment are—

Segment	Premium risk standard deviation factor (gross of reinsurance)	Reserve risk standard deviation factor (net of reinsurance)
1, 13	8%	9%
2, 14	8%	8%
3, 15	15%	11%
4, 16	6.4%	10%
5, 17	11.2%	11%
6, 18	19%	17.2%
7, 19	8.3%	5.5%
8, 20	6.4%	22%
9, 21	13%	20%
25	17%	20%
26	17%	20%
27	17%	20%

”

34 Paragraph 9 of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 9 (NSLT health risk factors) of Schedule 2 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for sub-paragraph (7) substitute—

“(7) The NSLT health premium risk standard deviation factors and health reserve risk standard deviation factors for use in regulations 59(12) and 59(13) for each segment are—

Segment	Health Premium Risk Standard Deviation Factor (gross of reinsurance)	Health Reserve Risk Standard Deviation Factor (net of reinsurance)
10, 22	5%	5.7%
11, 23	8.5%	14%
12, 24	9.6%	11%
28	17%	17%

”

; and

(b) for sub-paragraph (9) substitute—

“(9) The event type ratio factors for use in regulations 62(2)(a)(i)(A) and 63(2)(a)(i)(A) are—

Event type	Factor
Death caused by an accident	10.0%
Permanent disability caused by an accident	3.5%
Disability lasting 12 months, caused by an accident	16.5%
Medical treatment caused by an accident	30.0%

”

; and

(c) after sub-paragraph (9) insert—

“(10) The healthcare utilisation type and ratio of insured persons with clinical symptoms for use in regulation 64(4) are —

Healthcare Utilisation Type	Ratio of persons with clinical symptoms
Hospitalisation	1%
Consultation with a medical professional	20%
No formal medical care sought	79%

”

”

35 Schedule 8 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In schedule 8 (requirements for the use of external credit assessments) to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for the whole text substitute—

“ (1) An insurer must only use external credit assessment issued by an ECAI that is approved by the Authority.

(2) An insurer may nominate a different ECAI for each of its asset, liability and counterparty exposures. When nominating an EACI the following requirements must be met—

(a) an insurer must use the same EACI for all exposures of a particular type;

(b) an insurer must use its nominated ECAIs in a continuous and consistent way over time;

(c) an insurer must only use nominated ECAI credit assessments that take into account all amounts of principal and interest owed to it;

(d) if only one credit assessment is available from a nominated ECAI for an item, that credit assessment must be used to determine the capital requirements for that item;

(e) if two credit assessments are available for the same item and they differ, the assessment that would generate the highest solvency capital requirement must be used;

(f) if more than two credit assessments are available for the same item and they all differ, the insurer must only consider the two assessments that would generate the lowest solvency capital requirements, and paragraph (e) applies to these two assessments;

(g) both solicited and unsolicited credit assessments from ECAIs must be taken into account; and

(h) if only one credit assessment is available for a securitisation position it must be assumed that no credit assessment is available and the capital requirements for that item will be derived as if no credit assessment by a nominated ECAI is available.

(3) Credit assessments from a nominated ECAI for an issuer within a corporate group must not be used as the credit assessment for another issuer within the same corporate group.

(4) Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, that credit assessment must be used.

(5) Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, that credit assessment must be used in either of the following cases:

(a) it produces the same or higher capital requirement than would otherwise be the case and the exposure in question ranks pari passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant; or

(b) it produces the same or lower capital requirement than would otherwise be the case and the exposure in question ranks pari passu or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant,

and in all other cases, insurers must consider that there is no credit assessment by a nominated ECAI available for the exposure. »

36 Paragraph 1 of Schedule 9 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 1 (tier 1 basic own-fund items) of schedule 9 (assessing the quality of basic own-fund items into tier 1, tier 2 and tier 3), to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021—

(a) for subparagraph (4) substitute —

“(4) Under sub-paragraph (2)(c), insurers must consider a dividend or distribution to be foreseeable when it has been either declared or approved by the Board, regardless of any requirement for approval at an annual general meeting or equivalent. ”; and

(b) for sub-paragraph (5) substitute —

“(5) Under sub-paragraph (2)(c), insurers must consider the amount of foreseeable charges taken into account to be —

(a) the amount of taxes which are foreseeable and are not already recognised as a liability on the regulatory balance sheet; or

(b) the amount of any obligations or circumstances arising during the related reporting period which are likely to reduce the profits of the insurer where the Authority has determined they have not been appropriately captured by the valuation of assets and liabilities under regulation 14. ”

37 Paragraph 2 of Schedule 9 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 2 (tier 2 basic own-fund items) of schedule 9 (assessing the quality of basic own-fund items into tier 1, tier 2 and tier 3), to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for sub-paragraph (1) substitute —

“(1) The following basic own-fund items are classed as Tier 2, if they meet all of the features in sub-paragraph (2) —

(a) called up but unpaid ordinary share capital and the related share premium account;

(b) initial funds, members’ contributions or the equivalent basic own-fund item for a mutual or mutual-type insurer;

(c) subordinated mutual member accounts;

(d) preference shares and the related share premium account;

(e) any other item that meets the requirements of paragraph (2), subject to the approval of the Authority; and

(f) subordinated liabilities. ”

38 Paragraph 2 of Schedule 9 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 2 (tier 2 basic own-fund items) of schedule 9 (assessing the quality of basic own-fund items into tier 1, tier 2 and tier 3), to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, for subparagraph (2) substitute —

«(2) The required features for an own-fund item to be classed as Tier 2 are —

(a) the item ranks after the claims of all policyholders and non-subordinated creditors of the insurer;

(b) the item is undated or has an original maturity of at least 10 years;

(c) the first contractual opportunity to repay or redeem the item does not occur before 5 years from the date of issuance;

(d) the item may include limited incentives to repay or redeem that item, provided that these do not come into effect before 10 years from the date of issuance, as long as these incentives do not prevent any of the other requirements of this paragraph from being met;

(e) the item provides for the suspension of repayment or redemption of that item in circumstances where the insurer is not in compliance with its SCR or the repayment or redemption of that item would cause such non-compliance;

(f) the item meets the Tier 1 features set out in paragraph 1(3), but the limit set in regulation 73(3) for items of its type, is exceeded so it is instead classified as Tier 2 under regulation 73(2)(a)(ii);

(g) for items referred to in subparagraph (1)(a), (1)(b) and (1)d, unless specified under Manx legislation, the time period between calling up to pay and the item becoming paid-up must not be longer than three months, and during this period, these own-fund items are considered called up but unpaid and are deemed available to absorb losses; and

(h) for items which are considered called-up but unpaid, the contractual terms of the own-fund item must include the obligation for the unpaid amount to be paid in the event of the insurer becoming insolvent or entering into wind-up procedures prior to payment of called up items being received.»

39 Paragraph 3 of Schedule 9 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In paragraph 3 (tier 3 basic own-fund items) of schedule 9 (assessing the quality of basic own-fund items into tier 1, tier 2 and tier 3), to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 after sub-paragraph (2) insert —

«(3) Any basic own-fund items referred to in paragraph 1(1) or paragraph 2(1) of this Schedule that do not meet the features set out in paragraphs 1(3) and 2(2) of this Schedule (as applicable) and which have not been approved as ancillary own-funds under Regulation 75(1) are classified as Tier 3 basic own-fund items. »

40 Schedule 10 to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 amended

In schedule 10 (risk margin calculation) to the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, after subparagraph (4) insert —

«(5) Taking due account of proportionality in regulation 7, an insurer may use simplified methods when it calculates the risk margin under regulation 21, including one or more of the following—

(a) methods which use approximations for the amounts included in the calculation of the SCR for a particular year; or

(b) methods which approximate the discounted sum of the amounts included in the calculation of the SCR for a particular year, without calculating each of those amounts separately.»

MADE [DATE 2024]

B. ROTH
Chief Executive of the Isle of Man Financial Services Authority

L. BOYLE
Member of the Isle of Man Financial Services Authority

EXPLANATORY NOTE

(This note is not part of these Regulations)

These Regulations amend the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 and the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, to take account of recent changes made in relevant international standards.