Astana Financial Services Authority

Consultation Paper

No. 11 of 2018

Proposed Insurance and Reinsurance Legislative Framework in the AIFC

October 10, 2018

Introduction

1. The Astana Financial Services Authority (AFSA) has issued this Consultation Paper to invite public comments on the proposed AIFC Insurance and Reinsurance legislation, including prudential rules ("PINS"). This paper summarises the approach taken to drafting legislative acts.

2. AIFC (Re)insurance legislation has been drafted with regard to similar legislation in leading international financial centres. The purpose of PINS is to complement the regulatory framework established by the AIFC Financial Services Framework Regulations ("FSFR") by providing for the prudential regulation of insurance and reinsurance companies. In terms of legislative hierarchy PINS sits beneath the FSFR.

3. The proposals in this Consultation Paper will be of interest to individuals, financial services companies, market institutions and investors who are interested in doing business in the AIFC.

4. All comments should be in writing and sent to the address or email specified below. If sending your comments by email, please use "Consultation Paper No 11" in the subject line. You may, if relevant, identify the organisation you represent when providing your comments. The AFSA reserves the right to publish, including on its website, any comments you provide, unless you expressly request otherwise. Comments supported by reasoning and evidence will be given more weight by the AFSA.

5. The deadline for providing comments on the proposals is **8 November 2018**. Once we receive your comments, we shall consider if any refinements are required to this proposal.

6. Comments to be addressed by post:

   Policy and Strategy Division
   Astana Financial Services Authority (AFSA)
   8 Kunayev Street, Building B, Astana, Kazakhstan
   or emailed to: consultation@afsa.kz
   Tel: +8 7172 613781

7. The remainder of this Consultation Paper contains the following:
   (a) Background to the proposals;
   (b) Key elements of the proposed legislation;
   (c) Annex 1: Draft Insurance and Reinsurance Prudential Rules (PINS);
   (d) Annex 2: Proposed Amendments to AIFC General Rules (GEN);
   (e) Annex 3: Proposed Amendments to AIFC Conduct of Business Rules (COB).
   (f) Annex 4: Proposed Amendments to AIFC Fees Rules (FEEs)

Background

1. In 2015 Astana was designated by the President of Kazakhstan as the location of the Astana International Financial Centre ("AIFC"). He stated the need to establish the AIFC on the base of the Expo-2017 infrastructure and to confer a special status on the AIFC. The AIFC participants, bodies and organisations will enjoy a special tax regime, special migration regime, special currency exchange regulation regime.

2. According to Article 2 of the Constitutional Statute of the Republic of Kazakhstan "On the Astana International Financial Centre" (the "Constitutional Statute"), the purpose of the AIFC is to establish a leading international centre for financial services. The objectives of the AIFC are as follows:

   (1) attracting investment into the economy of the Republic of Kazakhstan by creating an attractive environment for investment in the financial services sphere;

   (2) developing a securities market in the Republic of Kazakhstan and integrating it with international capital markets;

   (3) developing *insurance markets*, banking services, and Islamic financing, in the Republic of Kazakhstan;

   (4) developing financial and professional services based on international best practice;

   (5) achieving international recognition as a financial centre.

3. PINS has been drafted with a view to reflecting international best practice. In particular, the draft reflects the "Insurance Core Principles" (ICP) published by the International Association of Insurance Supervisors (IAIS) and updated most recently in November 2017. In numerous instances guidance provides that the AFSA will have regard to particular parts of the ICP in assessing Insurers' compliance with the rules in PINS.

4. The FSFR and GEN provide the architecture around which PINS has been constructed. Schedule 1 of GEN has been amended to introduce the new Regulated Activities of "effecting Contracts of Insurance" and "Carrying out Contracts of Insurance" (together, "Insurance Business").

5. The rules cover both general and long-term insurance and reinsurance. The terms "General Insurance" and "Long Term Insurance" are each defined by reference to a list of categories of insurance that will be encompassed by the term (see Schedules 1 and 2 of PINS). The definition of General Insurance encompasses Accident, Sickness, Land vehicle, Railway rolling stock, Aircraft, Ships, Goods in transit, Fire and natural forces, Damage to property, Motor vehicle liability, Aircraft Liability, Liability of ships, General liability, Credit, Suretyship, Miscellaneous financial loss, Legal expenses and Assistance. Long Term Insurance encompasses Life and annuity, Marriage and birth, Linked long term and Permanent health. The category of "Linked long term" insurance includes investment life insurance or "Life Policies".

KEY ELEMENTS OF THE PROPOSED RULES

PINS 1 - General provisions

6. PINS 1 introduces a number of key terms and concepts including Insurance Business. It requires Insurers to classify Contracts of Insurance they write by reference to the categories of insurance identified in Schedules 1 and 2.

7. A feature of the leading international insurance regimes is a restriction on insurers combining different kinds of insurance business, and on the combination of insurance and non-insurance business. Such requirements are directed at limiting 'internal-contagion' risk. This is the risk that losses or liabilities from one activity might deplete or divert financial resources held to meet liabilities from another activity. PINS, therefore, prohibits Insurers from carrying on both General and Long-Term Insurance Business and requires Insurers to limit non-insurance activities to those that are directly connected with, or carried on for the purposes of, insurance business; guidance explains which activities will normally be considered to be directly connected.

8. PINS 1 also contains guidance as to the more limited extent to which the PINS regime will apply to branches of entities established 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. PINS 1.5 sets out the core obligations of Insurers by reference to the various chapters of PINS. A number of these obligations are limited to AIFC-Incorporated Insurers.

PINS 2 - Systems and Controls

9. Authorised Persons are already required by GEN 5 to have certain risk management systems and controls. However, PINS 2 contains additional risk management requirements that will apply to all Insurers.

10. PINS 2 requires an Insurer to establish and maintain a risk management function and an actuarial function. Insurers are also required to appoint Approved Individuals to the new Controlled Functions of Risk Officer and Internal Auditor. Certain Insurers are also required to appoint an Approved Individual to the Controlled Function of Approved Actuary. The rules in GEN 2.2 relating to Controlled and Designated Functions should be referred to for more information relating to the appointment of Approved Individuals.

PINS 3 - Risk Management Strategy

11. PINS 3 requires an Insurer to establish and maintain a risk management strategy. This should be clearly defined and well documented, and take into account the Insurer's overall business strategy and its business activities. This strategy contains a number of important components including a Risk Management Policy setting out 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. Schedule 3 sets out in detail what the AFSA would expect to find covered in an Insurer's Risk Management Policy. An

Insurer is also required to prepare a Risk Tolerance Statement which sets out its overall quantitative and qualitative risk tolerance levels.

12. An Insurer's Risk Management Strategy must be approved by its Governing Body. Any deviation from it must also be approved by its Governing Body and notified to the AFSA.

PINS 4 - Own Risk and Solvency Assessment (ORSA)

13. A feature of the leading international regimes is a requirement that insurers perform an own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.

14. PINS 4 contains a requirement that every AIFC-Incorporated Insurer (i.e. an Insurer which is not a branch) must conduct an ORSA annually (or with greater frequency if preferred by the AFSA), and that such ORSA must be appropriate to the nature, scale and complexity of the insurer's business. PINS then sets out a detailed explanation of what an ORSA is, its contents, and the matters to which an insurer must have regard in conducting an ORSA. An AIFC-Incorporated Insurer is required to prepare a report after it conducts its ORSA, which is to be reviewed and approved by the insurer's Governing Body.

PINS 5 - Capital adequacy requirements

15. The amount of capital available to an insurer is fundamental to its financial strength. It provides a buffer against losses that have not been anticipated and, in the event of problems, enables the insurer to continue operating while those problems are addressed or resolved. In this way, the maintenance of adequate capital resources can engender confidence on the part of policyholders, creditors and the market more generally in the financial soundness and stability of the insurer. PINS 5 accordingly requires an AIFC-Incorporated Insurer to calculate its qualifying capital resources (referred to as its Eligible Capital) on an ongoing basis and to monitor the extent to which its Eligible Capital exceeds two benchmarks referred to as the Minimum Capital Requirement (MCR) and the Prescribed Capital Requirement (PCR).

16. Schedule 4 sets out detailed rules for the calculation of Eligible Capital and identifies two types of capital (Tier 1 and Tier 2 Capital) that an AIFC-Incorporated Insurer is permitted to recognise and which it is obliged to hold in specified ratios. Schedule 5 sets out the calculation for the MCR relating to General Insurance Business and Long Term Insurance Business. Schedule 6 identifies a more detailed methodology for calculating the PCR which involves a highly sensitive analysis of the different types of risk engendered by the Insurer's Insurance Business.

17. PINS 5.3 provides that an AIFC-Incorporated Insurer may be permitted by the AFSA under certain circumstances to use its own internal models to calculate either the whole or a component of the PCR. However, it should be noted that the AFSA does not initially anticipate accepting applications for permission to use internal models.

18. PISN 5.4 sets out the "solvency control levels" which place various obligations upon an Insurer should it become aware that its Eligible Capital has fallen below

or close to either level. Guidance sets outs an indicative range of actions that AFSA may take on breach of either the MCR or the PCR.

19. Further provisions limit the circumstances in which an AIFC-Incorporated Insurer is permitted to reduce its Eligible Capital and require an AIFC-Incorporated Insurer to notify the AFSA of all dividends and other distributions to shareholders.

PINS 6 - Investment

20. PINS 6.1 requires Insurers (i.e. all Insurers including branches) to ensure that where they invest in assets they invest in assets that are secure, liquid, appropriately located and suitably diversified. Insurers are required to invest in a manner appropriate to their liabilities and only to invest in assets where they are able to assess and manage the risks involved. PINS 6.2 restricts Insurers from investing in certain high risk assets and PINS 6.3 requires Insurers to maintain written risk policies and procedures.

PINS 7 - Segregation of Long Term Insurance assets and liabilities

21. Because of the long-term nature of insurance liabilities for certain categories of insurance business, it is important that the capital and structure and assets of, for example, a life insurer are well matched against a realistic assessment of its liabilities. This is achieved in PINS 7 by requiring Insurers carrying on Long Term Insurance to segregate the insurance liabilities and matching assets of the various categories of Long Term Insurance and to establish a fund to which Long Term Insurance Contracts are attributed. The effect of this is that such assets may only be used to meet obligations to the policyholders with respect to which the fund has been established. Limitations are placed by PINS 7.4 upon the use of assets in a Long Term Insurance Fund.

PINS 8 - Valuation

22. PINS 8 sets out rules regarding matching of Insurers' assets to liabilities, on the basis of a consistent and transparent economic valuation of those assets and liabilities. An economic valuation of assets and liabilities reflects the risk-adjusted present values of their cash flows. The basic principle of measurement that an insurer must adopt as the basis of its accounting is specified as the IFRS.

23. PINS 8.1 requires an Insurer to hold supporting assets of a value at least equal to the amount of its liabilities. PINS 8.2 sets out basic principles for the recognition and valuation of such assets and liabilities. PINS 8.3 identifies particular assets relating to General Insurance Business which require special treatment, namely premium liability, future claims payments and expected recoveries. PINS 8.4 takes a similar approach for certain Long Term Insurance assets and liabilities namely policy benefits due before the Solvency Reference Date (i.e. the date of measurement) and the net value of future policy benefits.

PINS 9 - Actuarial reporting

24. PINS 9 elaborates on the requirements for Insurers which are obliged to retain an Approved Actuary, requiring in particular that an Approved Actuary carry out annually an actuarial investigation to enable him to prepare a report about the insurer's financial condition (a "financial condition report") which is to be submitted to the AFSA annually at the time of the insurer's annual regulatory return. The

AFSA will also have a power to direct that financial condition reports more frequently than annually, and also to direct an insurer that the Approved Actuary is to carry out an investigation into any matter which the AFSA specifies.

25. PINS 7.2 requires Insurers not required to appoint an Approved Actuary to consider annually whether to commission an independent actuary to report on its business, and to commission such a report at least once every 3 years.

PINS 10 - Insurers that are members of Groups

26. An insurer is exposed to risks through the relationships that it has with other insurance and non-insurance companies in its group. Group membership can be a source of strength, but it can also be a source of weakness. PINS 10 contains additional requirements for Insurers that are members of a group to ensure that: (i) 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; (ii) it can be properly supervised by the AFSA; (iii) it provides the AFSA with information about the structure and financial position of the group; and (iv) it assesses the effect of, and notifies the AFSA of, certain transactions within the group.

27. The effect of these provisions is broadly as follows. The structure of an insurer's group is to be transparent with clear governance, controls and reporting lines, and such that it does not hinder the insurer's stability and solvency. The AFSA has the power to direct that an insurer hold additional capital to cover risks arising because of the insurer's group membership. Insurers are to ensure that any material transaction with another member of its group is entered into on an 'arms-length' basis and on fair and reasonable commercial terms. Certain transactions – such as inter-group loans, guarantees or investments – are not to be entered into unless the insurer's Governing Body is satisfied that it does not adversely affect the interests of policyholders.

PINS 11 - Transfer of insurance business

28. Chapter 4 of the FSFR currently provides that the AFSA may provide by Rules that the transfer of a business of carrying on specified Regulated Activities by an Authorised Firm ("Relevant Transfer") may only be made by an order of the AIFC Court or may be made by such an order if the transferor elects. PINS 11 provides that the transfer of insurance business can only be made by an order of the AIFC Court.

29. PINS 11 then sets out various requirements which will apply to application for an order of the AIFC Court effecting an Insurance Business Transfer. These include that a report ("the Scheme Report") be prepared by an independent actuary. This report is to be put before the AIFC Court and, among other things, must contain: a rationale for the proposed relevant scheme; the categories of business to be transferred; and a confirmation that there will be no materially adverse consequences from the proposed transfer to the policyholders of either the transferor or transferee. Notification of the proposed transfer must also be given to all affected Policyholders.

PINS 12 - Insurers in run-off

30. PINS 15 applies to all AIFC-Incorporated Insurers along with Branches in respect of their AIFC Insurance Business and contains requirements that apply where such insurer has gone into "run-off". This means that an Insurer has ceased to effect Contracts of Insurance in respect of the whole or a category of its Insurance Business.

31. Insurers that go into run-off will be required to notify the AFSA and provide a run-off plan complying with PINS 12.3, including an explanation of how, or the extent to which, all liabilities to policyholders will be met in full as they fall due. An Insurer in run-off will be required to notify the AFSA of certain contracts and be restricted from making certain distributions.

PINS 13 - Prudential returns

32. PINS 13 requires Insurers to prepare and submit to the AFSA the annual, biannual and quarterly prudential returns set out in Schedule 7 (Prudential returns by Insurers).

PINS 14 - Captive Insurers

33. PINS 14 applies only to Captive Insurers. A Captive Insurer is an Authorised Firm with a Licence to carry on Captive Insurance Business. Captive Insurance Business is defined as 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. 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.

34. A Captive Insurer may take the form of a Protected Cell Company (PCC) - which is a form of legal entity that will be introduced under planned amendments to the Companies Regulations. PCCs consist of a core and one or more cells which are legally segregated for the purposes of insolvency law. A Captive Insurer incorporated as a PCC may maintain multiple cells, but requires the permission of the AFSA to create a new cell.

35. The requirements of PINS apply to Captive Insurers either in full or with the modifications set out in PINS 14.3 to 14.14. The key modifications are as follows:

    a. Systems and controls: A Captive Insurer is permitted to outsource its risk management and actuarial functions to a Captive Insurance Manager. This refers to an Authorised Person carrying on the new regulated activity of Captive Insurance Management.

    b. Risk management: A Captive Insurer is required to maintain a Risk Management Strategy and conduct an ORSA in accordance with PINS 3. However, it may apply to the AFSA for a waiver of the requirement to conduct an ORSA.

    c. Capital Adequacy: The requirements of PINS 5 apply to Captive Insurers save for a modified Capital Floor (the base requirement of the MCR) and modifications relating to the application of the capital requirements to PCCs.

Question:

Do you have any concerns relating to the proposed regulatory requirements to (re) insurance companies? If so, what are they, and how should they be addressed?

***draft* Insurance and Reinsurance Prudential Rules 2018 (PINS)**

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1 *General provisions*

1.1 Introductory

1.1.1 *Name of rules*

These rules are the AIFC Insurance and Reinsurance Prudential Rules 2018 (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.

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.

Guidance

A portion of a Contract of Insurance insuring a risk of a category other than the principal category to which the contract relates, will not normally be regarded as material if the interest that it insures is both related and subsidiary to the principal interest or interests insured under the contract, and constitutes less than 10% of the gross written premium under the contract.

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 this rule, managing investments is not an activity directly connected with, or carried on for the purposes of, Insurance Business.

Guidance

1. The following activities will normally be considered to be directly connected with, or carried on for the purposes of, Insurance Business carried on by an Insurer:
    a. investing, reinvesting or trading, as investor and for the Insurer's own account, that of its subsidiary, its holding company or any subsidiary of its holding company but not any other party, in shares, debt instruments, investment accounts, units in collective investment schemes, or other forms of investments that are intended to earn profit or return for the investor;
    b. rendering other services related to insurance business operations including actuarial, risk assessment, loss prevention, safety engineering, data processing, accounting, claims handling, loss assessment, appraisal and collection services;
    c. acting as agent for another Insurer in relation to Contracts of Insurance in which both Insurers participate;
    d. establishing subsidiaries or associates engaged or organised to engage exclusively in 1 or more of the businesses mentioned in a. to c.;
    e. insurance mediation.

2. The AFSA may give individual guidance on other business activities that may be taken to be directly connected with, or carried on for the purposes of, Insurance Business carried on by an Insurer.

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 (Investments).

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 produced 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 produced 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.

Guidance: Relevance of the IAIS Insurance Core Principles

In assessing an Insurer's compliance with the systems and controls requirements in GEN 5 and in this Chapter, the AFSA will have regard to the detailed guidance in ICP 8 (Risk Management and Internal Controls). In particular:

- In assessing an Insurer's compliance with GEN 5.1 (Systems and Controls: general requirements), GEN 5.3 (Corporate Governance) and GEN 5.6 (Conflicts of Interest), the AFSA will have regard to the guidance in ICP 8.1 and 8.2 (Systems for risk management and internal controls) and ICP 8.3 (Control function (general)).
- In assessing an Insurer's compliance with GEN 5.2 (Outsourcing), the AFSA will have regard to ICP 8.8 (Outsourcing of material activities or functions).
- In assessing an Insurer's compliance with GEN 5.4 (Compliance), the AFSA will have regard to the guidance in ICP 8.5 (Compliance function).
- In assessing an Insurer's compliance with GEN 5.5 (Internal audit), the AFSA will have regard to the guidance in ICP 8.7 (Internal audit function).
- In assessing an Insurer's compliance with PINS 2.1.1, the AFSA will have regard to the guidance in ICP 8.4 (Risk management function).
- In assessing an Insurer's compliance with PINS 2.1.1, the AFSA will have regard to the guidance in ICP 8.6 (Actuarial function).

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) Risk Officer;

(b) Internal Auditor; and

(c) Approved Actuary.

Guidance: relationship with GEN

Rules in this section supplement, and should be read in conjunction with, the Rules in GEN 2.2 (Controlled and Designated Functions). In particular an Insurer should note the following requirements of general application to Controlled Functions and the Approved Individuals performing them:

- GEN 2.2.6. Application for Approved Individual status
- GEN 2.2.7. AFSA discretion to waive requirements
- GEN 2.2.8. Modification or withdrawal of an Approved Individual's registration
- GEN 2.2.9. Dismissal or resignation of an Approved Individual

2.2.2 *Obligation to appoint Approved Individuals to certain roles*

(1) An Insurer must make the following appointments and ensure that they are held by one or more Approved Individuals at all times:

(a) Risk Officer; and

(b) Internal Auditor.

(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 *Risk Officer*

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

2.2.4 *Internal Auditor*

The Internal Auditor 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.

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.

Guidance: Risk Management Strategy

In assessing an Insurer's compliance with PINS 3.1.1(a), the AFSA will have regard to the guidance in ICP 16.1 (Enterprise risk management framework - risk identification and measurement).

3.1.3 *Contents of Risk Management Policy*

An Insurer's Risk Management Policy must:

(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 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.

Guidance: contents of Risk Management Policy

Detailed guidance as to what the AFSA would expect to be included in an Insurer's Risk Management Policy may be found in Schedule 3 (Guidance about what should be included in an Insurer's Risk Management Policy). Insurers should also refer to the guidance in ICP 16.3 to ICP 16.7.

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.

Guidance: Risk Tolerance Statement

In assessing an Insurer's compliance with PINS 3.1.4, the AFSA will have regard to the guidance in ICP 16.8 (Enterprise risk management framework - risk tolerance statement).

3.1.5 *Approval of Risk Management Strategy*

(1) An Insurer's Risk Management Strategy must be approved by its Governing Body.

(2) Any change to or deviation from an Insurer's Risk Management Strategy must be approved by it 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)*

Guidance: Purpose of the Own Risk and Solvency Assessment

(1) An ORSA is a detailed forward-looking examination of:
(a) the adequacy of an AIFC-Incorporated Insurer's risk management policies, procedures and controls; and
(b) the AIFC-Incorporated Insurer's present and future solvency positions.
(2) The objectives of ORSA are:
(a) to assess:
(i) whether the AIFC-Incorporated Insurer's own view of its solvency position is adequate given its risk profile and risk tolerance; and
(ii) whether its solvency position is likely to remain adequate in the foreseeable future;
(b) to show how the AIFC-Incorporated Insurer proposes to manage (through capital buffers and other risk-mitigation mechanisms) the material risks to which it is exposed; and
(c) to identify potential business vulnerabilities.

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 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.

Guidance: ORSA - requirements

In assessing an AIFC-Incorporated Insurer's compliance with PINS 4.1.2, the AFSA will have regard to the guidance in ICP 16.11 to 16.13 (Own risk and solvency assessment (ORSA)), ICP 16.14 (Own risk and solvency assessment (ORSA) - economic and regulatory capital), ICP 16.15 (Own risk and solvency assessment (ORSA) - continuity analysis) and ICP 16.16 (Role of supervision in risk management).

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.

Guidance: The Own Risk and Solvency Assessment

1 The AFSA will discuss and evaluate the adequacy and prudence of the AIFC-Incorporated Insurer's ORSA during the supervisory process. In particular, the AFSA will look into its adequacy when there is a material change in the AIFC-Incorporated Insurer's risk management strategy, strategic plan or business plan.

2 If the assumptions or data used in an AIFC-Incorporated Insurer's ORSA are inaccurate, inadequate or misleading, or if the AFSA considers that the underlying method is not sufficiently robust, the AFSA will require the AIFC-Incorporated Insurer to conduct a new ORSA or to prepare a revised ORSA Report.

5 *Capital adequacy requirements*

5.1 Application and purpose

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 4 (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 5 (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 6 (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 the 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.

Guidance

In assessing an AIFC-Incorporated Insurer's compliance with this Part 5.3, the AFSA will have regard to the guidance in ICP 17.12 to 17.18

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).

Guidance: actions that the AFSA may take on a breach of the PCR

Possible intervention actions that the AFSA may take if an AIFC-Incorporated Insurer breaches its PCR include one or more of:

(a) measures that are intended to enable the AFSA to better assess and/or control the situation, either formally or informally, such as increased supervision activity or reporting, or requiring auditors or actuaries to undertake an independent review or extend the scope of their examinations;
(b) measures to address capital levels such as limitations on redemption or repurchase of equity or other instruments and/or dividend payments;
(c) measures intended to protect policyholders pending strengthening of the AIFC-Incorporated Insurer’s capital position, such as restrictions on licences, premium volumes, investments, types of business, acquisitions, reinsurance arrangements;
(d) measures that strengthen or replace the AIFC-Incorporated Insurer’s management and/or Risk Management Strategy and overall governance processes;
(e) measures that reduce or mitigate risks (and hence required capital) such as requesting reinsurance, hedging and other mechanisms; or
(f) refusing, or imposing conditions on, applications submitted for regulatory approval such as acquisitions or growth in business.

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 ASFA as in addition to, or instead of, the measures in (3).

Guidance: actions that the AFSA may take on a breach of the MCR

Possible intervention actions that the AFSA may take if an AIFC-Incorporated Insurer breaches its MCR include one or more of:

(a) stopping the activities of the Insurer;
(a) withdrawal of the Insurer's Licence to carry on Insurance Business;
(c) requiring the Insurer to close to new business and run-off the portfolio;
(d) requiring the Insurer to transfer its portfolio to another Insurer; or
(e) requiring the Insurer to arrange additional reinsurance.

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 5 (Calculation of Minimum Capital Requirement (MCR)), it must immediately

(a) stop effecting new Contracts of Insurance; and

(b) inform the AFSA.

Guidance

The Capital Floor specified inSchedule 5 is the minimum bound of the MCR below which no AIFC-Incorporated Insurer is considered by the AFSA to be viable to operate effectively.

5.5 Reduction of Eligible Capital

Guidance

A reduction of an AIFC-Incorporated Insurer's Eligible Capital includes, but is not limited to:

a. share buybacks;

b. the redemption, repurchase or early repayment of any Eligible Capital instruments issued by the AIFC-Incorporated Insurer or a special purpose vehicle trading in its own shares; or

c. where aggregate interest and dividend payments on Tier 1 Capital exceed the AIFC-Incorporated Insurer's after-tax earnings in the year to which they relate (i.e. dividend and interest payments on Tier 1 Capital wholly or partly funded from retained earnings).

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.

Guidance: Security, liquidity, location and diversification

In assessing an Insurer's compliance with PINS 6.1.1 (Security, liquidity, location and diversification), the AFSA will have regard to the guidance in ICP 15.3.

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 this 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.

Guidance: Security, liquidity, location and diversification

In assessing an Insurer's compliance with PINS 6.1.2 (Assets appropriate to liabilities), the AFSA will have regard to the guidance in ICP 15.4.

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.

Guidance: Security, liquidity, location and diversification

In assessing an Insurer's compliance with PINS 6.1.3 (Ability to assess risks), the AFSA will have regard to the guidance in ICP 15.5.

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*

(1) 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.

(2) An Insurer that is a Branch must hold Long Term Insurance Assets in relation to Long Term Insurance Business carried on in the AIFC, in either the AIFC or the Republic of Kazakhstan.

Guidance

If the AFSA approves an application under PINS 7.1.5(1), 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

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.

Guidance

PINS 7.5.6 (Certain reinsurance-like arrangements prohibited) operates to prohibit reinsurance between Long Term Insurance Funds of the same Insurer, as well as arrangements of the nature of internal contracts of reinsurance where the cession transaction is attributed to a Long Term Insurance Fund but the corresponding reinsurance acceptance transaction is not.

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.

Guidance: Projecting cash flows - Long Term Insurance Business

1 Investment earnings—If the cash flow to be valued depends on future investment earnings, the assumption for investment earnings should reflect the expected investment earnings applicable to the assets on which the cash flows depend.

2 Reinsurance—An Insurer should value reinsurance cash flows using methods and assumptions that are at least as prudent as the methods and assumptions used to value the underlying Contracts of Insurance that have been reinsured.

3 Mortality and morbidity—Assumptions about mortality and morbidity should use prudent rates of mortality and morbidity that are appropriate to the country or territory of residence of the persons whose life or health are insured.

4 Expenses—An Insurer should make provisions for expenses, implicitly or explicitly, in its mathematical reserves of an amount that is no less that the amount expected, on prudent assumptions, to be incurred in carrying out its Long Term Insurance Contracts.

5 Options and guarantees—If an Insurer establishes its mathematical reserves for a Long Term Insurance Contract, the Insurer should include an amount to cover:

(a) any increase in liabilities that might be the direct result of the policyholder exercising an option under that contract, and

(b) all vested, declared or allocated bonuses to which policyholders are collectively or individually entitled under their contracts.

If the surrender value of a contract is guaranteed, the amount of the mathematical reserves for that contract at any time should be at least equal to the value guaranteed at that time.

6 Persistency—Assumptions about voluntary discontinuance rates in the calculation of the mathematical reserves may be made if the assumptions meet the general requirements for prudent assumptions in PINS 8.2.3 (Methods and assumptions that may be used).

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;

(b) measure the value of a liability at more than the value determined in accordance with this Chapter; and

(c) use approximate methods to measure an asset or a liability, where the result obtained by the use of that approximate method would not be materially different from the result obtained by applying a measurement method prescribed in 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.

Guidance

AFSA is likely to give a direction to an Insurer in accordance with PINS 8.2.1(2) where it has concerns over any asset or class of assets being counted at full value (for example: reinsurance assets that may be limited risk transfer arrangements).

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; and

(g) are in accordance with generally accepted actuarial practice.

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.

Guidance

The AFSA expects that the Insurer, in its approach to estimating a suitable yield for the discount rate, will have adequate regard to the profile of the liabilities (for asset-liability matching purposes) and the quality of the assets backing those liabilities.

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).

Guidance

Premium liability may be represented as two separate provisions: the unearned premium provision and the premium deficiency provision.

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.

Guidance

PINS 8.4.2 (Treatment of net value of future policy benefits) does not require an Insurer to obtain a valuation by an actuary or actuaries performing the actuarial function of the liability referred to in that rule, at a Solvency Reference Date other than the Insurer's annual reporting 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 calculate a negative value for its mathematical reserves for a Long-Term Insurance Contract 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*

Guidance: Actuarial reporting

Insurers that conduct Long Term Insurance Business, and certain Insurers that conduct General Insurance Business, are required to appoint an Approved Actuary. An Insurer that is required to appoint an Approved Actuary must have the Approved Actuary prepare and submit a report, called a Financial Condition Report, in accordance with PINS 9.1.2

(Financial Condition Reports), to the Insurer's Governing Body and the AFSA every year. An Insurer that is not required to appoint an Approved Actuary must consider every year whether to obtain an actuarial report in accordance with PINS 9.2 (Insurers that are not required to have an Approved), and must actually obtain such a report at least every 3 years.

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).

Guidance

An actuarial investigation is a full analysis of individual policy and claims data and other relevant information using actuarial techniques to estimate technical provisions.

(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):

(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—

(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.

Guidance

An Insurer's Approved Actuary may rely on other expert opinion to address any matter required by a Financial Condition Report which the Approved Actuary does not feel qualified to comment on. However, any third party opinion relied on for a Financial Condition Report should be clearly identified in the report.

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 (Obligation to appoint Approved Individuals to certain roles).

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 etc 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 6 (Assets and liabilities – General Insurance Business);

(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 etc 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 13 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 13 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.

Guidance: When AFSA might give direction regarding capital resources

By way of example only, the AFSA might direct an Insurer to hold additional capital:

- if the Group is conducting an intra-group transaction that may adversely affect the solvency or financial position of the Insurer;
- if there are risks that arise from the existence of a non-regulated entity within or connected to the Group and may adversely affect the solvency position of the Insurer; or
- if there are risk transfer or reinsurance arrangements within the Group that impose disproportionate risks on the Insurer.

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.

Guidance

A single transaction or series of connected transactions that constitute a sale, purchase, exchange, loan or extension of credit, investment or guarantee involving 0.5% or less of an Insurer's Eligible Capital as at the end of the last standard quarter (the standard quarters end on 31 March, 30 June, 30 September and 31 December) before the effective date of the transaction would not normally be considered material for the purposes of this rule.

(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 Capitalis 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.

Guidance: use of supervision powers by the AFSA

The AFSA has power to impose a requirement upon an Insurer pursuant to section 100 of the FSFR. The AFSA is likely to exercise such power if it considers that the Insurer's Group is conducting an intra-group transaction that may adversely affect the solvency or financial position of the Insurer, or there are risks that arise from the existence of a non-regulated entity within or connected to the Group and may adversely affect the solvency position of the Insurer, or risk transfer or reinsurance arrangements within the Group that impose disproportionate risks on the Insurer. Requirements imposed by the AFSA pursuant to such power are likely to relate to the Insurer's treatment of intra-group transactions, the Insurer's treatment of risk concentration within the Group and/or supervisory reporting and disclosure of information by the Insurer.

The AFSA has power under section 96 of the FSFR to require an Authorised Person provide specified information or produce specified documents. The AFSA also power under section 97 of the FSFR to require the production of a report. The AFSA is likely to exercise such powers if the Insurer's Group is conducting an intra-group transaction that may adversely affect the solvency or financial position of the Insurer or if there are risks that arise from the existence of a non-regulated entity within or connected to the Group and which may adversely affect the solvency position of the Insurer. Examples of directions that the AFSA is likely to issue pursuant to such powers include a requirement to produce a statement of the consolidated financial position of the Insurer's Group and/or information about any of the following: another entity or other entities in the Insurer's Group, the structure of its Group, the relationships between entities in its Group and/or the procedures and controls to manage Group risk in the Group.

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.

Guidance

Examples of functions that may be performed for an Insurer at Group level include:

- Group risk management
- capital planning
- liquidity
- compliance.

(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.

Guidance

Such procedures could include:

- a requirement for transactions within the Group to be at arm's length
- maintenance of "Chinese walls"
- development of contingency plans.

(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*

This Chapter applies to every AIFC-Incorporated Insurer.

Guidance

If an Insurer established outside the AIFC participates (as transferor or transferee) in a transfer of Insurance Business from or to a branch of that insurer in the AIFC, the AFSA expects that insurer to take such steps as may be necessary to ensure that transfer is recognised in the AIFC, including for the purposes of PINS.

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 11.7; and

(ii) a written summary of the scheme (the Scheme Summary) that complies with rule 11.8;

(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 11.9; and

(c) notice of the application for the Sanction Order is published in accordance with rule 11.10.

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.

Guidance

In deciding whether or not to nominate or approve a person as a Skilled Person the AFSA may have regard to factors including that person's qualifications, experience, professional standing, access to necessary resources and independence from the transferor or transferee.

The AFSA would normally expect a Skilled Person to have an actuarial qualification and expertise relevant to the categories of Insurance Business with which the scheme is concerned.

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.

Guidance

The AFSA may approve the form of a Scheme Report if the AFSA is satisfied that the report addresses all the material the issues raised by the scheme at an appropriate level of detail and is properly reasoned.

The opinion in (b) must address both the financial and non-financial impacts of the scheme. Non-financial impacts include, for example, changes to service levels that may be experienced by policyholders.

In (c), the relevant requirements of PINS include financial or prudential requirements such as the requirements to hold Eligible Assets in excess of the MCR and PCR, and also non-financial requirements, such as the requirement to have adequate systems and controls.

The matters that a Scheme Report should cover (in addition to the requirements in (b) and (c)), include:

(a) the rationale for the scheme;
(b) the terms of the agreement or deed under which the scheme is to be carried out;
(c) the categories of Insurance Business to be transferred by the scheme;
(d) details of assets and liabilities to be transferred by the scheme, including technical provisions, premiums, claims incurred and assets; and
(e) particulars of any other arrangements necessary to give effect to the scheme.

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.

Guidance

Examples of the information that a Scheme Summary may include are:
(a) that the AIFC-Incorporated Insurer proposes to transfer the policyholder's policy or policies to another Insurer, on or after a specified date;
(b) the full name and contact details of the other Insurer;
(c) the effect of the scheme (this explanation may be brief and may, for example, explain that from the date of the transfer all rights and liabilities under the policies will be transferred to the other Insurer, so that premiums will have to be paid to, and claims will have to be lodged with, that Insurer);
(d) any action the policyholder will need to take before or as a result of the transfer (for example, any changes in arrangements relating to paying premiums or lodging claims);
(e) how the scheme compares with possible alternatives;
(f) if the policyholder does not need to take any action before or as a result of the scheme, confirmation of that fact; and
(g) details of the compensation (if any) offered to policyholders for any loss of rights or expectations

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

(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 15 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 15 except to the extent the AFSA acting under its powers in the FSFR directs otherwise.

Guidance

1. The purpose of PINS 15 is to set out prudential provisions applying to Insurers that cease to effect Insurance Business, either wholly or in respect of a particular category. The provisions are also applicable to Long Term Insurance Funds, but do not apply to Non-AIFC Insurance Business of a Branch.
2. An Insurer may be in run-off because of a decision or notice of the AFSA under its powers in the FSFR requiring an Insurer to cease to effect certain Contracts of Insurance.

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.

Guidance

The effect of PINS 15.1.4 is to disregard, for the purposes of determining whether PINS 15 applies, Contracts of Insurance that are effected by an Insurer as a consequence of a term of an existing Contract of Insurance. A contract will normally only be regarded as being effected under a term of an existing contract if the Insurer does not have discretion to decline to effect the new contract or if it would be unreasonable for the Insurer, having regard to the interests of the policyholder, to decline to effect it.

12.2 Insurers ceasing to effect Contracts of Insurance in a category

12.2.1 *Application*

PINS 15.2.2 (Insurers to give notice of decision to cease business) and PINS 15.2.3 (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 15.2.2 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 15.2.2 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 15.3.2 to 15.3.7 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 15.2.2, 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 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 15.3.4 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 15.3.6, 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 15.4.2 (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 15.2.2 (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 management fees (other than fees payable under a contract notified to the AFSA in accordance with PINS 15.4.2), 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 7 (Prudential returns by Insurers).

(2) The AFSA may, by notice given to an AIFC Insurer require the AIFC Insurer to prepare additional prudential returns

Guidance: Waiver or modification of obligation to prepare prudential returns

An Insurer may apply to the AFSA pursuant to section 9 of the Financial Services Framework Regulations for a direction waiving or modifying the requirements of PINS 16.1.1 (Obligation to prepare 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.

13.1.4 *Method of submission of prudential returns*

A prudential return must be submitted by means of the AFSA's [electronic submission system].

Guidance: further supervisory powers of the AFSA to require information

Note that in addition to the obligation to prepare prudential returns in accordance with the Rules in this Chapter, an Insurer may be required to provide specified information or specified documents under section 96 of the FSFR and to provide the AFSA with a report on any subject under section 97 of the FSFR. Without limiting their application, such powers may be exercised to require the Governing Body of an Insurer to provide the AFSA with its view about the Insurer's compliance with any relevant Rule or requirement to which the Insurer is subject to under AIFC law, any prudential returns or any other statement or return being true and correct and not false or misleading; or any other matter the ASFA may specify.

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 Captive Insurance Business.

14.1.2 *Definition of Captive Insurance Business*

(1) Captive Insurance Business is 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.

(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*

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.

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 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 Systems and Controls

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

A Captive Insurer must comply with the requirements of PINS 2 (Systems and Controls) as if it were an Insurer, subject to the following rules.

14.3.2 *Outsourcing of risk management function (PINS 2.1.1)*

A Captive Insurer may outsource its risk management function to a Captive Insurance Manager, subject to the rules relating to outsourcing in GEN 5.2 (Outsourcing).

14.3.3 *Outsourcing of actuarial function (PINS 2.1.2)*

A Captive Insurer may outsource its actuarial function to a Captive Insurance Manager, subject to the rules relating to outsourcing in GEN 5.2 (Outsourcing).

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

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

14.4 Risk Management Strategy

14.4.1 *Application of PINS 3 (Risk Management Strategy).*

A Captive Insurer must comply with PIN 3 (Risk Management Strategy) as if it were an Insurer.

14.5 Own Risk and Solvency Assessment (ORSA)

14.5.1 *Application of PINS 4 (Own Risk and Solvency Assessment (ORSA)).*

A Captive Insurer must comply with PINS 3 (Own Risk and Solvency Assessment (ORSA)) as if it were an Insurer.

Guidance: Waiver of requirement to conduct an ORSA

A Captive Insurer may apply to the AFSA pursuant to section 9 of the FSFR for a direction waiving the requirement to conduct an ORSA in accordance with PINS 4.

14.6 Capital adequacy requirements

14.6.1 *Application of PINS 5 (Capital adequacy requirements)*

A Captive Insurer must comply with the requirements of PINS 5 (Capital adequacy requirements) as if it were an Insurer, subject to the following rules.

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

For the purposes of Schedule 5 of PINS, the Capital Floor for a Captive Insurer is

(a) [KZT x] for an Captive Insurer carrying on General Captive Insurance Business;

(b) [KZT y] for an Captive Insurer carrying on Long-term Captive Insurance Business; or

(c) An amount specified in writing by the AFSA.

14.6.3 *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.

14.6.4 *Prescribed Capital Requirement 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.

14.6.5 *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).

(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.

14.7 Investment

14.7.1 *Application of PINS 6 (Investment)*

A Captive Insurer must comply with PINS 6 (Investment) as if it were an Insurer.

14.8 Segregation of Long Term Insurance assets and liabilities

14.8.1 *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) as if it were an Insurer.

14.9 Valuation

14.9.1 *Application of PINS 8 (Valuation)*

A Captive Insurer must comply with PINS 6) as if it were an Insurer.

14.10 Actuarial Reporting

14.10.1 *Application of PINS 9 (Actuarial Reporting)*

A Captive Insurer must comply with PINS 9 (Actuarial reporting) as if it were an Insurer.

14.11 Insurers that are members of Groups

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

A Captive Insurer must comply with PINS 10(Insurers that are members of Groups) as if it were an Insurer.

14.12 Transfer of insurance business

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

A Captive Insurer must comply with PINS 11 (Transfer of insurance business) as if it were an Insurer.

14.13 Insurers in run-off

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

A Captive Insurer must comply with PINS 12 (Insurers in run-off) as if it were an Insurer.

14.14 Prudential returns

14.14.1 *Application of PINS 13 (Prudential Returns)*

A Captive Insurer must comply with PINS 13 (Prudential returns) as if it were an Insurer.

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 or 12 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).

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 party to be determined by references 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 Guidance about what should be included in an Insurer's Risk Management Policy

1 Introduction

This Schedule sets out in detail what the AFSA would expect to see in an Insurer's Risk Management Policy. Section 2 defines a range of risks. Section 3 states what, in the AFSA's view, should be included in the Risk Management Policy to deal with those risks.

2 Definitions

2.1 Credit risk

(1) Credit risk is:

(a) the risk of default by debtors, borrowers and other counterparties; and

(b) the risk of the loss of value of assets due to deterioration in their credit quality.

(2) Credit risk results from financial transactions with debtors, borrowers, securities issuers, brokers, policyholders, reinsurers and guarantors.

(3) Credit risk includes on-balance-sheet and off-balance-sheet exposures from guarantees, Derivative contracts and performance-related obligations to counterparties. It can increase the risk profile of an Insurer and can adversely affect the Insurer's financial viability.

2.2 Balance sheet and market risk

Balance sheet and market risk includes:

(a) investment risk;

(b) asset-liability management risk;

(c) liquidity risk; and

(d) derivatives risk.

2.3 Investment risk

(1) Investment risk is the risk of an adverse movement in the value of an Insurer's assets, including off-balance-sheet exposures.

(2) Investment risk includes:

(a) equity risk;

(b) interest rate risk;

(c) foreign exchange risk;

(d) credit risk; and

(e) investment concentration risk.

(3) Because of the nature of insurance business, there is a close relationship between investment risk and asset-liability management risk.

2.4 Asset-liability management risk

(1) Asset-liability management risk is the risk of an adverse movement in the relative values of assets and liabilities of an Insurer due to changes in general market factors, such as interest rates, inflation and, if relevant, foreign exchange rates.

(2) The expected payment profile of an Insurer's liability portfolios is a crucial part of asset-liability management, because it determines the exposure of the portfolios' value to interest rates. Property business, such as household insurance, is typically short-term. Liability business, such as public liability, is typically long-term. The interest rate sensitivity of assets and liabilities is broadly determined by the timing of cash flows, although that will not always be the case (for example, in the case of floating-rate notes or options).

(3) Assets and liabilities are well managed if their changes in value in response to market movements are highly correlated. If assets and liabilities are not well managed, the possibility of a reduction in asset value that is not offset by a reduction in liability value, or an increase in liability value that is not offset by an increase in asset value, becomes significant.

(4) Because of the nature of insurance business, there is a close relationship between investment risk and asset-liability management risk.

2.5 Liquidity risk

(1) Liquidity risk is the risk of the Insurer not having sufficient cash or liquid assets to meet its cash outflows to policyholders and other creditors as they fall due.

(2) The nature of insurance activities means that the timing and amount of cash outflows are uncertain. This uncertainty may affect the ability of an Insurer to meet its obligations to policyholders or require an Insurer to incur additional costs through, for example, raising additional funds at a premium on the market or through the sale of assets.

2.6 Derivatives risk

Derivatives risk is the risk from transactions in Derivative instruments such as forwards, futures, swaps, options, contracts for differences and other similar instruments.

2.7 Reserving risk

(1) Reserving risk is the risk that the reserves set aside by the Insurer for its Insurance Liabilities (net of reinsurance and other recoveries for those liabilities) will be inadequate to meet the net amount payable when the Insurance Liabilities crystallise.

(2) In this Part, Insurance Liabilities includes:

(a) the liability for claims incurred up to the reporting date;

(b) the premium liability; and

(c) for long-term insurance business—the net value of future policy benefits and reinsurance recoveries anticipated for those liabilities.

2.8 Insurance risk

Insurance risk is the risk that inadequate or inappropriate underwriting, product design, pricing and claims settlement will expose an Insurer to financial loss and consequent inability to meet its liabilities.

2.9 Underwriting risk

(1) Underwriting risk is the risk arising from the process by which an Insurer determines:

(a) whether or not to accept a risk; and

(b) the terms and conditions to be applied, and the premium to be charged, if the risk is accepted.

(2) Weaknesses in underwriting and in its procedures and controls can expose an Insurer to the risk of operational losses that may threaten its solvency position.

2.10 Product design risk

Product design risk, in relation to an insurance product, means the risk arising from:

(a) the introduction of a new insurance product; or

(b) the enhancement or variation of an existing insurance product.

2.11 Pricing risk

Pricing risk, in relation to an insurance product, means the risk arising from inaccurately estimating:

(a) the claims and other business costs arising from the product; and

(b) the income from the investment of the premium received for the product.

2.12 Claims settlement risk

(1) Claims settlement risk is the risk arising from the process by which Insurers fulfil their contractual obligations to policyholders.

(2) The claims settlement process is triggered when a loss occurs and a claims notification is made to the Insurer. The process begins with verifying the contractual obligation to pay the claim under the policy, and is followed by:

(a) an assessment of the amount of the liability (including loss adjustment expenses); and

(b) the prompt and efficient handling of the claim within the terms of the policy.

(3) Weaknesses in claims settlement and in its procedures and controls can expose an Insurer to additional or increased losses that may threaten its solvency position.

2.13 Reinsurance risk

Reinsurance risk is the risk that the reinsurance cover obtained by the Insurer is inadequate.

2.14 Operational risk

(1) Operational risk is the risk of financial loss resulting from:

(a) inadequate or failed internal processes, people and systems; or

(b) external events.

(2) Operational risk includes:

(a) business continuity risk;

(b) technology risk;

(c) outsourcing risk;

(d) fraud risk;

(e) legal risk;

(f) project management risk; and

(g) any other risks that the Insurer, having regard to its strategic plan and business plan, and the nature, scale and complexity of the Insurer's business and operating environment, determines should be included.

2.15 Business continuity risk

(1) Business continuity risk is the risk of unexpected financial and non-financial losses (such as loss of data, premises and reputation) due to disruptions in an Insurer's critical business operations.

(2) Disruptions may occur as a result of power failure, denial of access to work areas, fire, fraud, loss of key staff, failure of computer or data system, destruction of major equipment and security breaches arising from technology risk.

(3) Critical business operations are the business functions, resources and infrastructure that may, if disrupted, have a material impact on the Insurer's business functions, reputation, profitability and policyholders.

2.16 Technology risk

(1) Technology risk is risk:

(a) that arises from the use of communication information technology infrastructure; and

(b) that generates events that may lead to the disruption or damage of an Insurer's information systems or data.

(2) Technology risk is determined by the type and nature of threats targeting and affecting the Insurer's environment. Insurers rely heavily on technologies such as the internet and applications. In a highly interconnected and market-driven world, an Insurer should have a reliable, flexible, complete and integrated set of operating processes to deal with technology risks.

2.17 Outsourcing risk

(1) Outsourcing risk is the risk posed to an Insurer's business by non-performance, or poor performance, by a service provider of a function transferred to the service provider under a material outsourcing arrangement (within the meaning of CTRL).

(2) An Insurer should not outsource a function if the outsourcing would result in unduly increasing the operational risk of the Insurer.

(3) Financial firms frequently decide to outsource aspects of their operations to other parties, related or not. Outsourcing can bring significant benefits to an Insurer in terms of efficiency, cost reduction and risk management. However, the process of implementing outsourcing arrangements and the outsourcing relationship itself may expose an Insurer to additional risk. It is therefore important that Insurers take care to supervise the conduct of activities that are outsourced.

(4) The activities of service providers have the ability to undermine the risk management activities of Insurers. Insurers should take particular care in the outsourcing of activities such as underwriting and claims settlement, where inappropriate performance of the functions can expose the Insurer to serious financial loss, for example through acceptance of inappropriate insurance risks, mis-pricing, failure to obtain appropriate reinsurance cover, or failure to detect invalid claims. These considerations apply to such arrangements as binding authorities and other agencies appointed by Insurers.

(5) Insurers should take care to manage the risk that the sound and prudent management of the Insurer's business may be compromised by conflicting incentives in an outsourcing agreement. In particular, Insurers should consider whether the remuneration structure creates any perverse incentives. For example, a service provider with underwriting authority may have an incentive to accept poorer quality business if remuneration is based on commission (especially if bonuses are given for volume) but is not affected by the performance of the insurance contracts accepted.

(6) Intra-group outsourcing may be perceived as subject to lower risks than using service providers from outside a Group. However it is not risk-free and an Insurer must still assess the associated risks and make appropriate arrangements for their management.

2.18 Fraud risk

(1) Fraud risk means:

(a) risk from unauthorised activities such as those that breach the controls, procedures, limits or other restrictions in an Insurer's policies and procedures and in legal and regulatory requirements; or

(b) risk associated with:

(i) a deceptive act or omission intended to gain advantage for the party committing the fraud or other parties; or

(ii) an intentional act undertaken for personal gain or to tamper with or manipulate the financial or operational aspects of the business.

(2) Fraud risk exposes an Insurer to financial losses if not managed properly.

(3) Fraud risk can result from:

(a) internal sources (such as redirection of premiums); and

(b) external sources (such as fictitious claims).

(4) Countering fraud is the concern of individual Insurers and intermediaries who need to understand, and minimise their vulnerability to, fraud.

2.19 Legal risk

(1) Legal risk is the risk of an Insurer being exposed to losses, penalties or reputational damage due to breaches of laws or regulatory obligations, inadequate reinsurance or other contracts, or changes in the laws affecting the Insurer.

(2) Legal risk includes risks arising from:

(a) fines, penalties or punitive damages from supervisory actions or civil litigation;

(b) legal costs from litigation; and

(c) expenses arising from private settlements.

2.20 Project management risk

Project management risk is the risk that projects involving an Insurer will not achieve the desired objectives or will have a negative effect on the adequacy of resources.

2.21 Concentration risk

(1) Concentration risk is the risk of over-reliance on, or excessive exposure to, a type of risk, counterparty, asset class, industry or region as a result of credit, balance sheet and market, reserving, insurance, reinsurance, operational and Group risks.

(2) Concentration risk results from risk exposures with a loss potential that is large enough to threaten the solvency position of an Insurer.

(3) An Insurer's exposure to risks should not result in a concentration of risks that could result in losses so large as to threaten its solvency position.

2.22 Group risk

(1) Group risk is the risk of loss to an Insurer as a result of its membership of a Group or linkages within a Group.

(2) Group membership can be a source of both strength and weakness for an Insurer.

(3) The purpose of requiring an Insurer that is a member of a Group to include Group risk in its risk management policy is to ensure that the Insurer takes proper account of the risks arising from its membership.

3 Risk management policy

3.1 Credit risk

(1) An Insurer's Risk Management Policy for credit risk should include:

(a) a mandate setting out the acceptable range, quality and diversification of credit exposures (including those to reinsurers, brokers and policyholders) and investments;

(b) limits for credit exposures at individual and consolidated levels to:

(i) single counterparties and Groups of related counterparties;

(ii) intra-group asset exposures to subsidiaries and related entities;

(iii) single industries; and

(iv) single regions;

(c) a process for approving changes in the credit mandate and changes in limit structures;

(d) a process for approving requests for temporary increases in limits and a process to ensure excesses are brought within the pre-approved limits within a set timeframe;

(e) a process for reviewing and, if necessary, reducing or cancelling exposures to a particular counterparty if it is known to be experiencing problems;

(f) a process to monitor and control credit exposures against pre-approved limits;

(g) a process to review credit exposures (at least annually, but more frequently if there is evidence of a deterioration in credit quality);

(h) a management information system that is capable of aggregating exposures to any 1 counterparty (or Group of related counterparties), asset class, industry or region in a timely manner; and

(i) a process of reporting to the Governing Body and senior management:

  (i) any breaches of limits; and

  (ii) large exposures and other credit risk concentrations.

(2) Actual and potential credit exposures to reinsurers arising from current or possible future claims should be included in the Insurer's risk management policy.

3.2 Investment risk

(1) An Insurer's Risk Management Policy for investment risk should include:

(a) the Insurer's investment objective;

(b) formulation of an investment strategy, including allowable asset classes, strategic asset allocation, asset allocation ranges, benchmarks, risk limits and target currency exposures and ranges;

(c) a process for how individual asset classes will be managed, including which of those tasks will be done internally and which will be outsourced to investment managers;

(d) the responsibilities of individuals and committees within the Insurer (such as the investment committee and the asset-liability committee) for deciding and implementing the investment strategy, and for monitoring and controlling investment risk, including reporting lines, decision-making powers and delegations;

(e) a process for the selection of qualified and competent investment managers;

(f) limits and other restrictions on the actions of investment managers, whether internal or outsourced, and the means by which compliance with those limits are monitored;

(g) modelling and stress-testing of the effect of the current and alternative investment strategies on financial outcomes and asset-liability management;

(h) processes for:

  (i) ensuring the continuing appropriateness of the investment strategy, including the timing and nature of strategy reviews;

  (ii) ensuring the continuing appropriateness of the investment implementation process, including the timing and nature of reviews of investment managers and the manager configuration;

(iii) monitoring compliance with the investment strategy; and

(iv) making contingency plans to mitigate the effects of deteriorating investment conditions;

(i) the segregation of duties; and

(j) performance monitoring and its role in the oversight and control of the investment process.

(2) For paragraph (1) (b), the investment strategy should be formulated taking account of the investment objective, the Insurer's capital position, the term and currency profile of its expected liabilities, liquidity requirements and the expected returns, volatilities and correlations of asset classes.

3.3 Asset-liability management risk

An Insurer's Risk Management Policy for investment risk should include details about how:

(a) the Insurer's investment and liability strategies allow interaction between assets and liabilities;

(b) the correlations between assets and liabilities are taken into account;

(c) cash outflows to policyholders and other creditors will be met by cash inflows; and

(d) the valuations of assets and liabilities will change under an appropriate range of scenarios.

3.4 Liquidity risk

An Insurer's Risk Management Policy for liquidity risk should include:

(a) consideration of the level of mismatch between expected asset and liability cash flows under normal and stressed operating conditions;

(b) the liquidity and realisability of assets;

(c) commitments to meet insurance and other liabilities;

(d) the uncertainty of the incidence, timing and magnitude of Insurance Liabilities;

(e) the level of liquid assets required to be held by the Insurer; and

(f) other sources of funding, including reinsurance, borrowing capacity, lines of credit and intra-group funding.

3.5 Derivatives risk

An Insurer's Risk Management Policy for derivatives risk should include:

(a) the Insurer's objectives and policies in using Derivatives;

(b) a framework with limits on the use of Derivatives consistent with the Insurer’s risk tolerance;

(c) appropriate lines of authority and responsibility for transacting Derivatives, including trading limits;

(d) consideration of worst-case scenarios and sensitivity analysis; and

(e) a process for reporting of scenarios and analysis.

3.6 Reserving risk

(1) An Insurer’s Risk Management Policy for reserving risk should include:

(a) a process for the ongoing review and appraisal of the Insurance Liability valuation framework (including the assumptions made and reinsurance recoveries estimated);

(b) procedures and controls to ensure that the provision for Insurance Liabilities is, at all times, sufficient to cover any liabilities that have been incurred, or are yet to be incurred, on Contracts of Insurance accepted by the Insurer, as far as can reasonably be estimated;

(c) the methods to be applied in estimating the provision for Insurance Liabilities, including provisions for individual notified incurred claims;

(d) the methods to be applied in estimating the amount of the asset for reinsurance recoveries that are expected to arise on crystallisation of the gross Insurance Liabilities (the manner of estimating those assets must be consistent with the manner of estimating the gross liabilities, unless there is a sound justification for doing otherwise);

(e) procedures and controls to ensure that the selected approaches are applied accurately and consistently;

(f) procedures to review and monitor, on a regular basis, the out-turn of provisions made in previous years for Insurance Liabilities (gross and net of reinsurance recoveries);

(g) procedures to ensure that in-house or external specialists selected have the appropriate level of skill and experience and have available the necessary information to carry out the estimation required;

(h) suitable controls to ensure that the data used in determining the Insurance Liabilities are extracted from the underlying records accurately and to the necessary level of detail; and

(i) scenario testing for several years into the future, particularly for an Insurer conducting long-term insurance business.

(2) For paragraph (1) (a), in conducting a review and appraisal of the Insurance Liability valuation framework, consideration should be given to emerging pricing and claim payment trends.

(3) For paragraph (1) (c), in determining a provision estimation method, an Insurer may consider alternative approaches before selecting those regarded as most appropriate to the nature of the business.

(4) For paragraph (1) (h), the level of detail of the data used in determining the Insurance Liabilities should be sufficient to ensure that the data available covers the whole of the Insurer's liabilities and exposures under insurance contracts.

(5) In addition to the actuarial advice an Insurer is required to obtain under Chapter 9, an Insurer should consider the use of actuaries or other appropriately qualified and experienced loss reserving specialists to estimate Insurance Liabilities periodically through the year.

(6) The Insurer should undertake periodic testing of its reserving processes and the level of its reserves, including continual reassessment of assumptions used, and testing the sensitivity of the valuation of Insurance Liabilities to stress arising from realistic scenarios relevant to the circumstances of the Insurer.

3.7 Underwriting risk

An Insurer's Risk Management Policy for underwriting risk should include:

(a) a statement of the Insurer's willingness and capacity to accept risk;

(b) the nature of insurance business that the Insurer is to underwrite including:

(i) classes of insurance;

(ii) the areas where it conducts business;

(iii) the types of risks included and excluded; and

(iv) the criteria for the use of reinsurance in the different classes of insurance;

(c) details of the formal risk assessment process in the underwriting of insurance, including:

(i) the criteria used for risk assessment;

(ii) the methods for monitoring emerging experience; and

(iii) the methods by which the emerging experience is taken into consideration in the underwriting process;

(d) the process for setting approval authorities and the limits to those authorities (including controls surrounding delegations given to intermediaries of the Insurer);

(e) risk and aggregate concentration limits; and

(f) methods for monitoring compliance with policies and procedures regarding underwriting, such as:

(i) internal audit (but only if it is established that the internal audit function has the appropriate skills and experience to perform such activities);

(ii) reviews by area heads or portfolio managers;

(iii) peer review of policies (including details of the staff responsible for undertaking the peer review, the frequency of such reviews and the reporting arrangements for the results); and

(iv) in the case of reinsurers—audits of ceding companies to ensure that reinsurance assumed is in accordance with contracts in place.

3.8 Product design risk

An Insurer's Risk Management Policy for product design risk should include:

(a) the product classes and types of risks in which the Insurer chooses to engage;

(b) setting a business case for new or enhanced products;

(c) market testing and analysis;

(d) cost-benefit analysis;

(e) requirements for limiting risk through measures such as diversification, exclusions and reinsurance (including confirmation that the existing reinsurance will provide protection or new reinsurance protection is being provided);

(f) processes to ensure that policy documentation is adequately drafted to give legal effect to the proposed level of cover under the product;

(g) an implementation plan for the product, including milestones;

(h) clearly defined and appropriate levels of delegation for approval of all material aspects of product design;

(i) post-implementation review; and

(j) methods for monitoring compliance with product design policies and procedures.

3.9 Pricing risk

(1) An Insurer's Risk Management Policy for pricing risk should include:

(a) clearly defined and appropriate levels of delegation for approval of all material aspects of pricing;

(b) a process for the reflection of emerging experience in price adjustments;

(c) profit-loss analysis, including monitoring the effect of price movements;

(d) price discounting authorities;

(e) a process for the Insurer's product pricing to respond to competitive and other external environmental pressures;

(f) a process for monitoring, and the ability to monitor, deviations of actual price from the technical underwriting pricing;

(g) methods for monitoring compliance with pricing policies and procedures for proposed pricing variations; and

(h) the relationship between pricing, product development and investment management so that they are appropriately aligned.

(2) The AFSA expects Insurers to consider doing the following in relation to pricing insurance products:

(a) incorporating ongoing actuarial review of, and actuarial involvement in, the pricing process;

(b) undertaking independent reviews of:

(i) pricing for schemes; and

(ii) pricing for larger or more complex risks.

3.10 Claims settlement risk

An Insurer's Risk Management Policy for claims settlement risk should include:

(a) clearly defined and appropriate levels of delegation of authority;

(b) claims settlement procedures and controls, including loss estimation and investigation procedures;

(c) criteria for accepting or rejecting claims;

(d) dispute resolution procedures; and

(e) methods for monitoring compliance with claims settlement procedures, such as:

(i) internal audit (but only if it is established that the internal audit unit has the appropriate skills and experience to perform such activities);

(ii) reviews by area heads or portfolio managers;

(iii) peer review (including details of the staff responsible for undertaking the peer review, the frequency of such reviews and the reporting arrangements for the results);

(iv) assessments of brokers' procedures and systems to ensure that the quality of information provided to the Insurer is of a suitable standard; and

(v) in the case of reinsurers—audits of ceding companies to ensure that the value of claims paid is in accordance with contracts.

3.11 Reinsurance risk

An Insurer's Risk Management Policy for reinsurance risk should include:

(a) the Insurer's objectives (within its risk tolerance) for reinsurance management;

(b) the process for selection of reinsurance brokers and advisers;

(c) the processes for prudent and sound selection, management and monitoring of its reinsurance programme;

(d) managerial responsibilities and controls;

(e) the methods for determining all aspects of a reinsurance programme, including:

(i) identification and management of aggregations of risk exposures;

(ii) selection of probable maximum loss factors;

(ii) selection of realistic adverse scenarios, return periods and geographical aggregation areas; and

(iv) identification and management of vertical and horizontal coverage of the programme;

(f) the process for ensuring that there is accurate and complete reinsurance documentation;

(g) the selection of participants in Contracts of Reinsurance, including the criteria and procedures to ensure, and monitor, their diversity and creditworthiness;

(h) the procedures for identifying actual and potential credit exposures to individual reinsurers or Groups of connected reinsurers on programmes that are already in place; and

(i) the processes for entering into a limited risk transfer arrangement.

3.12 Business continuity risk

An Insurer's Risk Management Policy for business continuity risk should:

(a) describe the process for identifying and analysing:

(i) events that may lead to a disruption in business continuity;

(ii) the likelihood of those events occurring;

(iii) the processes most at risk; and

(iv) the consequences of those events;

(b) include a plan (business continuity plan or BCP) describing:

(i) objectives and procedures for crisis management and recovery in order to minimise financial, legal, regulatory, reputational and other material consequences arising from the disruption of its business;

(ii) procedures to be followed if business continuity problems arise;

(iii) detailed procedures for carrying out the BCP, including manual processes, the activation of an off-site recovery site (if needed) and the persons responsible for activating the BCP;

(iv) a communications strategy and contact information for relevant staff, suppliers, regulators, market authorities, major clients, the media and other key staff;

(v) a schedule of critical systems covered by the BCP and the timeframe for restoring those systems;

(vi) the pre-assigned responsibilities of staff;

(vii) procedures for staff awareness and training on all aspects of the BCP; and

(vii) procedures for regular testing and review of the BCP; and

(c) procedures for backing up important data on a regular basis and storing the data off site.

3.13 Technology risk

An Insurer's Risk Management Policy for technology risk should include:

(a) information technology policies and procedures to identify, assess, monitor and manage technology risks;

(b) arrangements for adequate information technology infrastructure that:

(i) meet its current and projected business requirements (both under normal circumstances and in periods of stress);

(ii) ensure data and system integrity, security and availability; and

(iii) support integrated and comprehensive risk management;

(c) the use of appropriate technology to manage adequately the financial, medical and personal information held by an Insurer;

(d) procedures and controls on data security to enable it:

(i) to report, in a timely manner, security breaches to affected customers and to the AFSA; and

(ii) to meet other reporting requirements;

(e) processes to assess the risks associated with major breaches in data security and to mitigate the effects of such breaches on its resources, operations, environment and operations;

(f) as part of business continuity planning, measures to be taken in case of breaches of data security; and

(g) measures that ensure that Group structures are not used to circumvent prohibitions on the sharing of personal information.

3.14 Outsourcing risk

An Insurer's Risk Management Policy for outsourcing risk should include:

(a) a process for negotiating or assessing outsourcing agreements with service providers;

(b) the setting and monitoring of authority limits and referral requirements;

(c) the identification and assessment of performance targets;

(d) the procedures for evaluation of performance against targets;

(e) the provisions for remedial action;

(f) the reporting requirements imposed on the service providers (including content and frequency of reports);

(g) the ability of the Insurer and its external auditors to obtain access to the service providers and their records;

(h) the protection of intellectual property rights;

(i) the protection of customers' and the Insurer's confidentiality;

(j) the adequacy of any guarantees, indemnities or insurance cover that a service provider agrees to provide;

(k) the ability of a service provider to provide continuity of business; and

(l) the arrangements to change, or terminate, outsourcing agreements.

3.15 Fraud risk

An Insurer's Risk Management Policy for fraud risk should include:

(a) internal controls and mitigation strategies;

(b) segregation of duties at an operational level and in relation to functional reporting lines;

(c) financial accounting controls;

(d) staff training and awareness; and

(e) appropriate processes for monitoring compliance with the Insurer's procedures, controls, limits or other restrictions (such as those placed on investment managers or those making decisions on underwriting).

3.16 Legal risk

An Insurer's Risk Management Policy for legal risk should include:

(a) processes for ensuring that documentation is accurate and complete;

(b) processes to ensure that policies are adequately drafted so that the Insurer does not have to pay out for risks not priced into the original premium; and

(c) procedures and controls for ensuring that the Insurer complies with all legal, prudential and other regulatory requirements.

3.17 Project management risk

An Insurer's Risk Management Policy for project management risk should include:

(a) a method for the promulgation of project initiatives including:

(i) setting a business case for the project;

(ii) cost-benefit analysis of the project; and

(iii) stakeholder sign-offs;

(b) clearly defined and appropriate levels of delegation of authority;

(c) ongoing monitoring of project objectives and timeframes; and

(d) post-implementation review.

3.18 Concentration risk

An Insurer's risk management policy for concentration risk should include:

(a) identification of large risk exposures;

(b) a description of the way in which large risk exposures are being managed, controlled and mitigated by the Insurer;

(c) a description of any limits put in place by the Insurer to control concentration risk;

(d) identification of on-balance sheet and off-balance sheet exposures to concentration risk;

(e) risk management procedures in relation to concentration risk; and

(f) processes to ensure that the Insurer's exposures to large potential losses due to concentration risk are in line with its risk tolerance.

3.19 Group risk

(1) If an Insurer is a Branch, or part of a Group, the Insurer's Risk Management Policy for Group risk should:

(a) include a summary of the Group policy objectives and strategies;

(b) state whether the local risk management strategy is derived wholly or partly from the group-wide risk management strategy;

Note The Governing Body of an Insurer must know the implications for the Insurer of any group-wide risk management strategy (see CTRL, r 4.1.5 (4)).

(c) summarise the linkages and significant differences between the local risk management strategy and the group-wide risk management strategy, including differences arising from local business and other conditions;

(d) outline the procedures and timing for monitoring by, or reporting to, the parent entity or head office;

(e) describe the approach to reviews of the procedures in paragraph (d);

(f) include, if applicable, a summary of the Group policy objectives and strategies relating to reinsurance;

(g) summarise the linkages between local and Group reinsurance; and

(h) detail any arrangements relating to the existence of, and accessibility to, intra-group reinsurance.

(2) If a part of an Insurer's Risk Management Policy is controlled by another entity in the Group, or by the head office, the risk management policy must describe the arrangement and how it works.

(3) If the Insurer is a Branch or is part of an insurance Group and the head office or ultimate holding company is outside the QFC, the risk management policy should include a summary of the supervisory arrangements regarding risk management in the jurisdiction where the head office or holding company is located.

Schedule 4 Calculation of Eligible capital

1 Application and purpose

1.1 Application

This Schedule applies to every AIFC-Incorporated Insurer.

1.2 Purpose

Guidance

1. In assessing the adequacy of an AIFC-Incorporated Insurer's financial resources, attention must be paid not only to the types of events or problems that it might encounter, but also the quality of the support provided by various types of capital instruments.
2. The purpose of this Schedule is to identify those capital instruments that can be included as Eligible Capital to meet the AIFC-Incorporated Insurer's minimum capital requirement. In determining the rules governing whether a capital instrument is adequate for supervisory purposes, the AFSA has identified the following relevant matters, namely the extent to which each instrument:
   a. provides a permanent and unrestricted commitment of funds;
   b. is freely available to absorb losses from business activities;
   c. does not impose any unavoidable servicing charges against earnings;
   d. ranks behind the claims of policyholders and other creditors in the event of the winding-up of the AIFC-Incorporated Insurer.
3. As Insurers authorised to conduct Insurance Business in or from the AIFC in the legal form of a Branch will be subject to the regulatory capital requirements applicable in their home jurisdiction, the requirements of this Schedule do not apply to Branches.

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.

Guidance

The AFSA may recognise forms of capital instruments in addition to those set out in the Eligible Capital Calculation Table for inclusion in an AIFC-Incorporated Insurer's Eligible Capital where those instruments comply with accepted international standards.

2.2 Eligible Capital Calculation Table

The Eligible Capital Calculation Table is as follows:

(A) Tier 1 Capital:
Permanent Share Capital
Undistributable Reserves
Fund for future appropriations
(B) Deductions from Tier 1 Capital

Investments in own shares
Intangible assets
Interim net losses
(C) Tier 1 Capital after deductions = A-B
(D) Tier 2 Capital:
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
(E) Total Tier 1 Capital plus Tier 2 Capital = C+D
(F) Deductions from Total of Tier 1 and Tier 2 Capital:
Investments in subsidiaries and associates
Connected lending of a capital nature
Inadmissible assets
(G) Total Tier 1 Capital plus Tier 2 Capital after deductions = E-F = Total Eligible Capital

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 Article 72(7) of the AIFC Companies Regulations (AIFC Regulations No. 2 of 2017) 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

Guidance

Tier 2 Capital consists of instruments that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an AIFC-Incorporated Insurer. Such instruments include some forms of hybrid capital instruments that have the characteristics of both equity and debt, that is they are structured like debt, but exhibit some of the loss absorption and funding flexibility features of equity.

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 Eligible 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;

(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.

Guidance: ASFA approval of other items of Tier 2 Capital

The matters that will be taken into account by the AFSA in considering an instrument for potential approval as Tier 2 Capital include (but are not limited to) the following:

(a) the extent to which and in what circumstances the proposed capital element is subordinated to the rights of policyholders in an insolvency or winding up;
(b) the extent to which the proposed capital element is fully paid and available to avoid losses;
(c) the period for which the proposed capital element is available; and
(d) the extent to which the proposed capital element is free from mandatory payments or encumbrances.

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.

Guidance

The AFSA regards connected lending of a capital nature to be any lending to a company in the same Group as the AIFC-Incorporated Insurer for activities which that company would find hard to finance from another source, and is typically on a long term basis. Unless there is a genuine ability for the funds to be repaid within a short time, it is generally considered that the loan is of a capital nature.

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.

Guidance

The above assets have been identified as inadmissible assets because:

a. a sufficiently objective and verifiable basis of valuation does not exist;
b. their realisability cannot be relied upon with sufficient confidence;
c. their nature presents unacceptable custody risks; or
d. the holding of these may give rise to significant liabilities or onerous duties.

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 5 Calculation of Minimum Capital Requirement (MCR)

1 Minimum capital requirement (MCR)

Guidance

The MCR represents the supervisory intervention point at which the AFSA would invoke its strongest actions, if further capital is not made available. However, that this does not preclude such actions being taken by the AFSA for other reasons, and even if the MCR is met or exceeded. Therefore, the main aim of the MCR is to provide the ultimate safety net for the protection of the interests of policyholders.

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) [KZT x] for an AIFC-Incorporated Insurer carrying on General Insurance Business;

(b) [KZT y] for an AIFC-Incorporated Insurer carrying on Long-term Insurance Business; or

(c) An amount specified in writing by the AFSA.

Guidance

The Capital Floor is a minimum bound on the MCR below which no Insurer is regarded to be viable to operate effectively.

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) 2% 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.

Guidance

The AFSA generally expects the amounts received for an assumption of insurance obligations to reflect the market value of that assumption, determined on an arms-length basis.

(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 6 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:

$$\{ \text{investment risk requirement} + \text{insurance risk requirement} \times \} \left(\frac{0.15}{0.85}\right);$$

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.

3.2 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
3	A+ A A-	A1 A2 A3	A A-	A+ A A-	3
4	BBB+ BBB BBB-	Baa1 Baa2 Baa3	B++ B+	BBB+ BBB-	4
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 4.

3.3 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.

(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.
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.

4.2 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
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	8.00

Item	Asset	%
	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	
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 *related* parties; or (c) dependent relatives of such directors unsecured loans to employees (except loans of less than KZT350,000) assets subject to a fixed or floating charge	100.00
11	other non-reinsurance assets not mentioned in this table	20.00

4.3 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

4.4 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

Item	Asset	%
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

4.5 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.

4.6 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.

4.7 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 in rule 4.2.2.

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 4.5 (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
3	Category 4, 5, 6, 7, 8, 9, 16, 17	16	18	21
4	Category 10, 11, 12, 13, 14, 15	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	11	12	14
4	Category 10, 11, 12, 13, 14, 15	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 Cateogries 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:

MER + CoR (if any) – RP (if any)

where:

MER has the meaning given in paragraph 10.3 (Maximum event retention).

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.

(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 7 Prudential returns by Insurers

Item	Title of return	Form number	Frequency for AIFC-Incorporated Insurers.	Frequency for Insurers which are not AIFC-Incorporated
1	Statement of financial position / balance sheet	INS100	Annually and quarterly	Annually and quarterly
2	Statement of comprehensive income / income statement	INS200	Annually and quarterly	Annually and quarterly
3	Analysis of Derivative activities	INS111	Annually and quarterly	n/a
4	Analysis of investment concentrations in foreign currency	INS113	Annually and quarterly	n/a
5	Analysis of investment concentrations risk	INS114	Annually and quarterly	n/a
6	Supplementary information	INS210	Annually and quarterly	Annually and quarterly
7	Calculation of Eligible Capital	INS300	Annually and quarterly	n/a
8	Calculation of prescribed capital requirement (PCR)	INS310	Annually and quarterly	n/a
9	Calculation of asset risk component	INS320	Annually and quarterly	n/a
10	Calculation of off balance sheet asset risk component	INS330	Annually and quarterly	n/a
11	Calculation of off balance sheet liability risk component	INS340	Annually and quarterly	n/a
12	Calculation of premium risk component	INS350	Annually and quarterly	n/a
13	Calculation of technical provisions risk component	INS360	Annually and quarterly	n/a
14	(For Long Term Insurers only) Calculation of long term insurance risk component	INS370	Annually and quarterly	n/a

15	Calculation of insurance concentration risk component	INS380	Annually and quarterly	n/a
16	Statement of reinsurance	INS400	Annually	Annually and quarterly
17	Statement of premium information	INS500	Annually and quarterly	Annually and quarterly
18	Statement of technical provisions and claims	INS600	Annually and quarterly	Annually and quarterly
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 and quarterly	n/a
21	Statement of largest clients	INS800	Annually and quarterly	Annually and quarterly

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

Term	Definition
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 6 (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 5 (Calculation of Minimum Capital Requirement (MCR)).
Contract of Insurance	any contract of insurance which is a Long Term Insurance Contract or a General Insurance Contract
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 3.2 (Table A Grade of assets according to counterparty ratings) of PINS Schedule 6 (Calculation of Prescribed Capital Requirement (PCR))
Eligible Capital	the capital instrument that may be recognised by an AIFC-Incorporated Insurer for the purpose of meeting its MCR and PCR in accordance with PINS Schedule 4 (Calculation of Eligible capital)
Financial Condition Report	the report identified in PINS 9.1.2 (Financial Condition Reports)
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 6 (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 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 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; (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; (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 (b) that is sold or held out as providing benefits for the Policyholder as set out in paragraph (a).
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 6 (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 6 (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 6 (Calculation of Prescribed Capital Requirement (PCR)).
Operational Risk Requirement	The capital component identified in paragraph 2.4 (Operational Risk Requirement) of PINS Schedule 6 (Calculation of Prescribed Capital Requirement (PCR))
Outstanding Claims Risk Component	The capital component identified in paragraph 8 (Outstanding Claims Risk Component) of PINS Schedule 6 (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 6 (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.
Tier 1 Capital	The components of capital identified at paragraph 3 (Components of Tier 1 Capital) of PINS Schedule 4 (Calculation of Eligible capital)
Tier 2 Capital	The components of capital identified at paragraph 4 (Components of Tier 2 Capital) of PINS Schedule 4 (Calculation of Eligible capital)

ANNEX 2

In this section, the underlining indicates a new text and the striking through indicates deleted text in the proposed amendments.

PROPOSED AMENDMENTS TO THE AIFC GENERAL RULES (GEN)

Schedule 1: REGULATED ACTIVITIES

1. Dealing in Investments as Principal

Dealing in Investments as Principal means buying, selling, subscribing for or underwriting any Investment as principal.

2. Dealing in Investments as Agent

Dealing in Investments as Agent means buying, selling, subscribing for or underwriting any Investment as agent.

3. Managing Investments

Managing Investments means managing on a discretionary basis assets belonging to another Person where the assets include any Investment.

4. Managing a Collective Investment Scheme

(1) Managing a Collective Investment Scheme means establishing, managing or otherwise operating or winding up a Collective Investment Scheme.

(2) To the extent that any activity under (1) constitutes Managing Assets, Providing Fund Administration, Dealing as Agent, Dealing as Principal, Arranging Deals in Investments, or Providing Custody, such a Regulated Activity is taken to be incorporated within Managing a Collective Investment Scheme.

5. Providing Custody

Providing Custody means one or more of the following activities:

(a) safeguarding and administering Investments belonging to another Person;

(b) in the case of a Fund, safeguarding and administering Fund Property; or

(c) safeguarding and administering Private E-currencies belonging to another Person.

6. Arranging Custody

Arranging Custody means arranging for one or more Persons to carry on the Regulated Activity of Providing Custody.

7. Providing Trust Services

Providing Trust Services means:

(a) the provision of services with respect to the creation of an express trust;

(b) arranging for any Person to act as a trustee in respect of any express trust;

(c) acting as trustee in respect of an express trust;

(d) the provision of Trust Administration Services in respect of an express trust; or

(e) acting as protector or enforcer in respect of an express trust.

8. Providing Fund Administration

Providing Fund Administration means providing one or more of the following services in relation to a Fund:

(a) processing dealing instructions including subscriptions, redemptions, stock transfers and arranging settlements;

(b) valuing of assets and performing net asset value calculations;

(c) maintaining the share register and Unitholder registration details;

(d) performing anti money laundering requirements;

(e) undertaking transaction monitoring and reconciliation functions;

(f) performing administrative activities in relation to banking, cash management, treasury and foreign exchange;

(g) producing financial statements, other than as the Fund's registered auditor; or

(h) communicating with participants, the Fund, the Fund Manager, and investment managers, the prime brokers, the Regulators and any other parties in relation to the administration of the Fund.

9. Acting as the Trustee of a Fund

(1) Acting as the Trustee of a Fund means holding the assets of a Fund on trust for the Unitholders where the Fund is in the form of an Investment Trust.

(2) To the extent that any activity under (1) constitutes Providing Fund Administration or Providing Custody, such a Financial Service is taken to be incorporated within Acting as the Trustee of a Fund.

10. Advising on Investments

(1) Advising on Investments means giving advice to a Person in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor, on the merits of his buying, selling, holding, subscribing for or underwriting a particular Investment (whether as principal or agent).

(2) In sub-paragraph (1), "advice" includes a statement, opinion or report:

(a) where the intention is to influence a Person, in making a decision, to select a particular Investment or an interest in a particular Investment; or

(b) which could reasonably be regarded as being intended to have such an influence.

11. Arranging Deals in Investments

Arranging Deals in Investments means making arrangements with a view to another Person buying, selling, subscribing for or underwriting an Investment (whether that other Person is acting as principal or agent).

12. Managing a Restricted Profit Sharing Investment Account

Managing a Restricted Profit Sharing Investment Account means managing an account or portfolio which is a Restricted Profit Sharing Investment Account (RPSIA).

13. Islamic Banking Business

Islamic Banking Business means providing financing or making Investments by entering as principal or agent into any Islamic Financial Contract while raising funds for those activities through either or both of the following:

(a) raising, accepting and managing funds or money placements;

(b) managing Unrestricted Profit Sharing Investment Accounts (UPSIA);

provided that all such activities are carried out in a Shari'ah-compliant manner.

14. Providing Islamic Financing

Providing Islamic Financing means providing financing in a Shari'ah-compliant manner by entering into any Islamic Financial Contract.

15. Insurance Intermediation

(1) Insurance Intermediation means:

(a) advising on a Contract of Insurance;

(b) acting as agent for another Person in relation to the buying or selling of a Contract of Insurance for that other Person; or

(c) making arrangements with a view to another Person, whether as principal or agent, buying a Contract of Insurance.

(2) In (1)(a), 'advising' means giving advice to a Person in his capacity as a Policyholder, or in his capacity as agent for a Policyholder on the merits of his entering into a Contract of Insurance whether as principal or agent.

(3) In (2), 'advice' includes a statement, opinion or report:

(a) where the intention is to influence a Person, in making a decision, to select a Contract of Insurance or insurance cover; or

(b) which could reasonably be regarded as being intended to have such influence.

(4) The arrangements in (1)(c) include arrangements which do not bring about the transaction.

(5) The arrangements in (1)(c) do not include the mere provision of information about:

(a) a Contract of Insurance, insurer, insurance intermediary or insurance manager to a Policyholder; or

(b) a Policyholder to an insurer, insurance intermediary or insurance manager,

if the Person providing that information does not take any further steps to assist in concluding the Contract of Insurance.

16. Operating a Representative Office

(1) Operating a Representative Office means the marketing, from an establishment in the AIFC, of one or more financial services or investments which are offered in a jurisdiction other than the AIFC.

(2) For the purposes of this paragraph, "marketing" means:

(a) providing information on one or more investments or financial services;

(b) engaging in promotions in relation to such information provision; or

(c) making introductions or referrals in connection with the offer of financial services or investments;

provided that such activities do not constitute:

(d) advising on Investments; or

(e) receiving and transmitting orders in relation to an Investment.

(3) An Authorised Person which is authorised to Operate a Representative Office may not have a Licence to carry on any other Regulated Activity.

(4) An Authorised Person which does not have a Licence to Operate a Representative Office does not Operate a Representative Office if it undertakes any activities of the kind described in sub-paragraph (2) that constitute marketing.

(5) Any communication which amounts to marketing in respect of a Financial Service or Investment, which is issued by or on behalf of a Government or non-commercial governmental entity, does not constitute marketing for the purposes of sub-paragraph (2).

17. Accepting Deposits

Accepting Deposits means accepting money or funds received as a Deposit if that money or funds are:

(a) lent to other Persons; or

(b) used to finance wholly, or partly, any other activity of the Person accepting the Deposit.

18. Providing Credit

(1) Providing Credit means providing a Credit Facility to another Person.

(2) A Person does not carry on the Regulated Activity of Providing Credit if the Credit Facility is to be provided by the Authorised Person in the course of carrying on one or more of the following activities:

(a) Dealing in Investments as Agent;

(b) Arranging Deals in Investments;

(c) Managing Investments;

(d) Managing a Collective Investment Scheme;

(e) Providing Custody.

19. Advising on a Credit Facility

(1) Advising on a Credit Facility means giving advice to a Person in his capacity as a borrower or a potential borrower, or as an agent for a borrower or a potential borrower, on the merits of his entering into a particular Credit Facility.

(2) In sub-paragraph (1), "advice" includes a statement, opinion or report:

(a) where the intention is to influence a Person, in making a decision, to enter into a particular Credit Facility; or

(b) which could reasonably be regarded as being intended to have such an influence.

20. Arranging a Credit Facility

(1) Arranging a Credit Facility means making arrangements for the provision of a Credit Facility by one or more Persons.

(2) A Person does not carry on the Regulated Activity of Arranging a Credit Facility if

(a) he is to be a party to the Provision of Credit Facilities in question; or

(b) he merely provides the means by which a Person providing a Credit Facility communicates with the Person to whom the Credit Facility is or is to be provided.

(3) A Person does not carry on the Regulated Activity of Arranging a Credit

Facility if it:

(a) is carried on in the course of Providing Legal Services or Providing Accountancy Services, which does not otherwise consist of the carrying on of Financial Services;

(b) may reasonably be regarded as a necessary part of any other services provided in the course of Providing Legal Services or Providing Accountancy Services; and

(c) is not remunerated separately from the other services.

21. Providing Money Services

(1) Providing Money Services means providing currency exchange or money transmission services.

(2) In sub-paragraph (1), "money transmission" includes, without limitation:

(a) selling or issuing payment instruments;

(b) selling or issuing stored value; or

(c) receiving money or monetary value for transmission, including electronic transmission, to a location within or outside the AIFC.

(3) An Authorised Person does not provide Money Services, if it does so in relation to the carrying on of another Regulated Activity where providing Money Services is in connection with and a necessary part of that other Regulated Activity.

22. Effecting Contracts of Insurance

Effecting Contracts of Insurance means effecting Contracts of Insurance as Principal.

23. Carrying on Contracts of Insurance

Carrying on Contracts of Insurance means carrying on Contracts of Insurance as Principal.

24. Captive Insurance Management

Captive Insurance Management is the administration of, and exercise of managerial functions for, a Captive Insurer, and includes the administration of Contracts of Insurance for the Captive Insurer.

In this section, the underlining indicates a new text and the striking through indicates deleted text in the proposed amendments.

PROPOSED AMENDMENTS TO THE AIFC CONDUCT OF BUSINESS RULES (COB)

5. ~~SUITABILITY AND APPROPRIATENESS~~ – CONDUCT OF INVESTMENT BUSINESS

5.1 Application

5.1.1 Application of requirement to assess suitability

COB 5.2 applies where an Authorised Firm:

(a) Advises on Investments; or

(b) Manages Investments.

5.1.2 Application of requirement to assess appropriateness

COB 5.3 applies where an Authorised Firm is:

(a) Dealing in Investments as Principal;

(b) Dealing in Investments as Agent, or

(c) receiving and transmitting orders for a Client,

and is not Advising on Investments or Managing Investments.

Guidance: Receiving and transmitting orders

An Authorised Firm carries on this activity of "receiving and transmitting orders" if it both receives an order from a Client for a transaction in an Investment and transmits it to another party, such as a broker, for execution or for onward transmission to the executing broker or venue.

5.1.3 Market Counterparties

COB 5 does not apply where the Authorised Firm provides a Financial Service to a Market Counterparty.

5.2 Suitability assessment

5.2.1 Requirement to assess suitability

When Advising on Investments or Managing Investments for a Client, an Authorised Firm must take reasonable steps to ensure that any recommendation or decision to trade on behalf of a Client is suitable for the Client.

5.2.2 Nature of suitability assessment

When making its recommendation or decision to trade on behalf of a Client, the Authorised Firm must assess the Client's:

(a) investment objectives;

(b) financial situation; and

(c) knowledge and experience in relation to the type of Investment or Investment Service concerned,

so as to ensure that the recommendation or decision to trade is suitable for that particular Client.

5.2.3 Investment objectives

The Authorised Firm must assess the Client's investment objectives by, where appropriate, considering the length of time for which the Client intends to hold Investments, and taking into account the Client's risk profile and tolerance for risk, and the purpose of the relevant Investment.

5.2.4 Financial situation

The Authorised Firm must assess the Client's financial situation by, where appropriate, requesting information on the source and extent of the Client's income, assets, Investments, Real Property, and any regular financial commitments or liabilities.

5.2.5 Knowledge and experience

The Authorised Firm must consider the Client's knowledge and experience by taking into account, to the extent appropriate for the circumstances:

(a) the types of Investment, Investment Service and Transaction with which the Client is familiar;

(b) the nature, volume, and frequency of the Client's Transactions in Investments and the period over which they have been carried out;

(c) the level of education, and profession or relevant former profession of the Client; and

(d) the Client's knowledge and understanding of any associated risks.

5.2.6 Insufficient information

If an Authorised Firm does not obtain sufficient information to assess suitability for the purposes of COB 5.2.2, the Authorised Firm must not recommend an Investment or Investment Service, or make a decision to trade.

5.2.7 Professional Clients

An Authorised Firm may assume, when making a recommendation, or decision to trade, for or on behalf of a Professional Client, that:

(a) the Client has the necessary knowledge and experience for the purposes of COB 5.2.2(c); and

(b) if the Client is a Deemed Professional Client, the Client has an adequate financial situation and the necessary knowledge and experience for the purposes of COB 5.2.2(b) and (c).

5.2.8 Firms providing trust services

An Authorised Firm Providing Trust Services does not have to assess the Client's knowledge and experience or risk tolerance when assessing the suitability of the service to a particular Client, because these considerations are not considered to be relevant to the Regulated Activity of Providing Trust Services.

5.2.9 Suitability reports

When Advising on Investments for a Retail Client, an Authorised Firm must provide the Client with a suitability report that must include:

(a) an outline of the advice given;

(b) an explanation of why the recommendation is suitable, including how it meets the client's objectives and personal circumstances; and

(c) a statement bringing to the client's attention the need for periodic review of suitability (where relevant).

5.3 Appropriateness assessment

5.3.1 Requirement to assess appropriateness

When Dealing in Investments as Principal, Dealing in Investments as Agent, or receiving and transmitting orders for a Client, an Authorised Firm must ask for information about the Client's knowledge and experience in relation to the type of Investment or Investment Service concerned to assess whether the Investment or Investment Service are appropriate for that Client.

Guidance: Client engaged in a course of dealings

If a Client engages in a course of dealings involving a specific type of Investment or Investment Service through the services of an Authorised Firm, the Authorised Firm is not required to make a new assessment on the occasion of each separate Transaction. An Authorised Firm complies with COB 5.3 provided that it makes the necessary appropriateness assessment before providing the relevant service.

5.3.2 Exemption from requirement to assess appropriateness

An Authorised Firm is not required to assess appropriateness if:

(a) the service provided to the Client:

(i) only consists of the execution and/or the reception and transmission of orders;

(ii) relates to the Investments specified in COB 5.3.3 below; and

(iii) is provided at the initiative of the Client;

(b) the Client has been clearly informed that in the provision of this service the Authorised Firm is not required to assess the appropriateness of the Investment or Investment Service provided or offered and that therefore he does not benefit from the protection of the rules on assessing appropriateness; and

(c) the Authorised Firm complies with its obligations in relation to conflicts of interest.

5.3.3 Exempt Investments for the purposes of COB 5.3.2

The Investments that are exempted in accordance with COB 5.3.2(a)(ii) are:

(a) Shares admitted to trading on a Authorised Investment Exchange or other authorised and regulated exchange; or

(b) bonds or other forms of securitised debt (excluding those bonds or securitised debt that embed a Derivative); or

(c) other non-complex Investments.

Guidance: Non-complex Investments

An Investment is non-complex if it satisfies the following criteria:

(a) it is not a Derivative or a Security giving the right to acquire or sell a transferable security or giving rise to a cash settlement determined by reference to transferable Securities, currencies, interest rates or yields, commodities or other indices or measures;

(b) there are frequent opportunities to dispose of, redeem, or otherwise realise the Investment at prices that are publicly available to the market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;

(c) it does not involve any actual or potential liability for the client that exceeds the cost of acquiring the Investment; and

(d) adequately comprehensive information on its characteristics is publicly available and is likely to be readily understood so as to enable the average Retail Client to make an informed judgment as to whether to enter into a Transaction in that Investment.

5.3.4 Nature of appropriateness assessment

The Authorised Firm must assess whether the Client has the necessary knowledge and experience in order to understand the risks involved in relation to the relevant Investment or Investment Service.

5.3.5 Client's knowledge and experience

When assessing the appropriateness of the Investment or Investment Service for the Client, the Authorised Firm must consider the Client's knowledge and experience by taking into account, to the extent appropriate for the circumstances:

(a) the types of Investment Service, Investment and Transaction with which the Client is familiar;

(b) the nature, volume, and frequency of the Client's Transactions in Investments and the period over which they have been carried out;

(c) the level of education, and profession or relevant former profession of the Client; and

(d) the Client's knowledge and understanding of any associated risks.

5.3.6 Professional Clients

An Authorised Firm may assume that a Professional Client has the necessary knowledge and experience for the purposes of COB 5.3.4.

5.3.7 Warning the Client

If an Authorised Firm considers that the Investment Service, Investment or Transaction is not appropriate for the Client, it must issue a warning to the Client that it is not considered to be appropriate.

5.4 Information about the Client

An Authorised Firm must take reasonable steps to ensure the information it holds about a Client is at all times accurate, complete and up to date.

5.5 Record keeping

The Authorised Firm must keep a record of its suitability reports for a minimum of six years. It is not required to keep a record of the suitability report if the Client does not proceed with the recommendation.

5.6 Packaged products—additional disclosure

5.6.1 Product disclosure document—preparation

An Authorised Firm must prepare a Product Disclosure Document for each Packaged Product it produces.

5.6.2 Product disclosure document—provision requirement

(1) An Authorised Firm (the selling firm) must not sell, or arrange for the sale of, a Packaged Product to a Retail Client unless it has given the Client, not later than a reasonable time before the Client becomes contractually bound in relation to the sale of the Packaged Product—

(a) a Product Disclosure Document for the Packaged Product; or

(b) if the Packaged Product was produced by another Authorised Firm—a Product Disclosure Document that complies with subrule (2); or

(c) if the Packaged Product was produced by a person in a jurisdiction other than the AIFC—disclosure documentation that complies with subrule (3).

(2) If the Packaged Product was produced by another Authorised Firm, the Product Disclosure Document given to the Retail Client under subrule (1) (b)—

(a) must be the Product Disclosure Document prepared by the other Authorised Firm; but

(b) must prominently display each of the following:

(i) the name of the selling firm;

(ii) either the address of the selling firm or a contact point from which the address is available;

(iii) the selling firm's regulatory status.

(3) If the Packaged Product was produced by a person in a jurisdiction other than the AIFC, the disclosure documentation given to the Retail Client under subrule (1) (c) complies with this subrule if—

(a) the selling firm is satisfied on reasonable grounds that—

(i) the disclosure documentation was prepared by the person in accordance with the requirements of the law of the other jurisdiction; and

(ii) those requirements are broadly equivalent to the requirements of this division; and

(b) the disclosure documentation prominently displays—

(i) the information mentioned in subrule (2) (b) (i) to (iii); and

(ii) if the Packaged Product is a Life Policy—

(A) a statement to the effect that the person who produced the Packaged Product (the insurer) is not authorised or regulated by the AFSA; and

(B) an explanation of any differences between the cancellation rights (if any) applying in relation to the Packaged Product (including the length of any period to exercise the rights) and those that would be provided under these rules if the insurer were an Authorised Firm; and

(C) a warning to the effect that the claims handling procedures applying in relation to the Packaged Product may differ from those provided under these rules.

(4) If a Life Policy sold by an Authorised Firm to a Retail Client is varied and, because of the variation, the Client has a right to cancel the Life Policy under COB 19.2.2 (Variations of Life Policies—right to cancel), the firm must—

(a) update the document that it gave the Client under subrule (1) in relation to the Life Policy to reflect the variation; and

(b) give a copy of the updated document to the Client.

Guidance for COB 5.6.2 (2) and (3)

1 An Authorised Firm may comply with COB 5.6.2 (2) (b) or (3) (b) by including the required information in a sticker or wrapper attached to the Product Disclosure Document or disclosure documentation.

2 The purpose of COB 5.6.2 (3) is to allow an Authorised Firm to give disclosure documentation that meets the disclosure objectives of a Product Disclosure Document, even if the form or content is different in matters of detail from that required by this division. For example, an Authorised Firm could provide a disclosure document that uses a projection or illustration prepared in accordance with rules prescribed by an overseas regulator, if these ensure a fair projection based on objective and reasonable assumptions.

5.6.3 Product disclosure document—form

An Authorised Firm must ensure that a Product Disclosure Document given by it to a Retail Client for a Packaged Product—

(a) is produced and presented to at least the same quality and standard as the sales or marketing material used by it to promote the Packaged Product; and

(b) is separate from any other material given to the Client; and

(c) displays the product provider's brand at least as prominently as any other brand displayed; and

(d) does not disguise, diminish or obscure important items, statements or warnings.

5.6.4 Product disclosure document—content

(1) An Authorised Firm must ensure that a Product Disclosure Document prepared by it for a Packaged Product includes each of the following:

(a) the firm's name;

(b) either the address of the firm or a contact point from which the address is available;

(c) the firm's regulatory status ;

(d) the following statement prominently displayed:

'The Astana Financial Services Authority is the independent financial services regulator for the Astana International Financial Centre. It requires us, [*insert Authorised Firm's name*], to give you this important information to help you to decide whether this [insert 'product' or product name] is right for you. You should read this document carefully so that you understand

what you are buying, and then keep it safely for future reference.';

(e) a description, appropriate for the Packaged Product's complexity, of its nature, its particular characteristics, how it works, and any limitations or minimum standards that apply;

(f) enough information about the material benefits and risks of buying the product for a Retail Client to be able to make an informed decision about whether to buy;

(g) the availability of the firm's internal complaint-handling procedures and how a complaint may be made to the firm;

(h) whether there is a right to cancel and, if there is a right to cancel, the consequences of exercising this right, and enough details to enable the right to be exercised by a Retail Client.

(2) An Authorised Firm must not, in a Product Disclosure Document prepared by it, do or say (or fail to do or say) anything that might reasonably lead a Retail Client to be mistaken about the product provider's identity.

5.6.5 Life policies—additional content

(1) An Authorised Firm must ensure that a Product Disclosure Document prepared by it for a Life Policy for a Retail Client includes the following:

(a) a definition of each benefit and option;

(b) the term of the contract;

(c) details of how the contract may be terminated;

(d) how and when premiums are payable;

(e) details of how bonuses are calculated and distributed, including the following information:

(i) how profits that are allocated for the payment of bonuses are distributed;

(ii) whether increased benefits resulting from bonuses are payable (subject to any adjustments) even if the contract is terminated early by either party to the contract;

(iii) if bonuses increase benefits—whether increases are likely to be made each year or only when the policy amounts become payable to the policyholder;

(iv) the basis on which bonuses are distributed to policyholders;

(v) whether policies share equitably in the allocation of all the profits of the long-term fund, or only certain elements of the profits;

(f) an illustration prepared in accordance with COB 5.6.6 (Life policies—illustrations), except if the benefits of the Life Policy do not depend on future investment returns;

(g) information about charges and expenses that, subject to subrule (2), includes—

(i) a description of the nature of the charges and expenses the Retail Client will, or may be expected to, pay; and

(ii) 2 tables (one for the lower projection, and the other for the higher projection, calculated on the basis of a rate of return mentioned in COB 5.6.6 (2)), each prepared in accordance with COB 5.6.7 (Life policies—effect of charges and expenses table) illustrating the effect of charges and expenses on the policy;

(h) information on premiums for each benefit, including, if appropriate, both main benefits and supplementary benefits;

(i) if the Retail Client has been charged for rider benefits or increased underwriting benefits—the amount of premiums charged for those benefits;

(j) if the policy is a unit-linked policy—a definition of the units to which benefits are linked and the nature of the underlying assets.

(2) If the Authorised Firm is exempt from including an illustration mentioned in rule (1) (f) because the benefits of the Life Policy do not depend on future investment returns, the Product Disclosure Document prepared by it for the Life Policy must include—

(a) an indication of guaranteed benefits, surrender benefits, paid-up values and any other benefits (whichever are applicable) under the policy; and

(b) the likely amount, and a general description, of the charges and expenses the Retail Client will, or may be expected to, pay under the policy.

5.6.6 Life policies—illustrations

(1) For COB 5.6.5 (1) (f), the illustration must indicate how the main terms of the Life Policy apply to the Retail Client and contain projections of the final surrender value of the policy calculated in accordance with COB 5.6.8 (Life policies—projection calculation rules).

(2) The illustration must contain at least 2 projections, with—

(a) a lower projection calculated on the basis of a rate of return to be set at no more than 5%; and

(b) a higher projection calculated on the basis of a rate of return that the Authorised Firm reasonably expects the Life Policy to achieve, but that, in any event, must be no more than 9%.

5.6.7 *Life policies—effect of charges and expenses tables*

(1) For COB 5.6.5(1) (g), each table illustrating the effect of charges and expenses on the policy must include the contents of the following table (The Effects of Charges and Expenses Table).

The Effects of Charges and Expenses Table

WARNING—if you cash in early you could get back less than you have paid in
This table illustrates what you would get back from your investment if it grew at x% (*insert rate of return*) a year. These figures are not guaranteed and are only intended to demonstrate the effect of charges and expenses on your investment based on different assumptions on the growth of your investments.

At end of Year	**Total paid in to date**	**Effect of charges and expenses to date**	**What you might get back**
	KZT	**KZT**	**KZT**
1			
2			
3			
4			
5			
10			
15			

(2) An Authorised Firm may change the Effects of Charges and Expenses Table so far as necessary to reflect the nature and effect of the charges and expenses inherent in the particular product.

(3) In completing the Effects of Charges and Expenses Table, the Authorised Firm must—

(a) include figures for the first 5 years of the Life Policy; and

(b) if the policy is a whole-Life Policy or the illustration covers more than 25 years—include figures for the 10th and every subsequent 10th year of the policy's term; and

(c) if the policy is not a whole-Life Policy and the illustration covers 25 years or less—include figures for the 10th and every subsequent 5th year of the policy's term; and

(d) include—

(i) the final year of the policy; or

(ii) for a whole-Life Policy or a single premium Life Policy without a fixed term—an appropriate end date for the policy; and

(e) if there is discontinuity in the trend of surrender values—include the appropriate intervening years; and

(f) in the 'Total paid in to date' column, show cumulative totals of contributions paid to the end of each relevant year; and

(g) in the 'Effect of charges and expenses to date' column, show the figure calculated by taking the accumulated value of the fund without taking charges and expenses into account and then subtracting from that figure the figure in the 'What you might get back' column for the same year ; and

(h) in the 'What you might get back' column, show the projection of the surrender value for the policy calculated in accordance with COB 5.6.8 (Life policies—projection calculation rules) and accumulated at the rate of return selected by the firm for the lower or higher projection mentioned in COB 5.6.6 (2) (Life policies—illustrations), as the case requires; and

(i) if the Retail Client is entitled to exercise, and has chosen or expressed the intention to exercise, the right to make partial surrenders—include a column headed 'Withdrawals' showing the cumulative total of the withdrawals.

(4) The Authorised Firm must include a statement at the bottom of the table expressing the effect of charges and expenses on the Life Policy in terms of a reduction in the rate of return.

Guidance

The reduction in the rate of return (***A***) may be calculated as follows:
A = B – C
where:
B is the rate of return selected by the firm for the lower or higher projection mentioned in COB 5.6.6(2), as the case requires.
C is the annual rate of return worked out by—
(a) carrying out a projection using B; and
(b) then calculating the annual rate of return (rounded to the nearest tenth of 1%) required to achieve the same projection value if charges and expenses were not taken into account.

5.6.8 Life policies—projection calculation rules

(1) For COB 5.6.6 (Life policies—illustrations) and COB 5.6.7 (Life policies—effect of charges and expenses table), any projection of the surrender value of a Life Policy used in an illustration or an Effects of Charges and Expenses Table must be calculated in accordance with a methodology and set of assumptions prepared and approved by the Approved Actuary of the AIFC Insurer preparing the Product Disclosure Document.

(2) In preparing the methodology and assumptions mentioned in subrule (1), the Approved Actuary must have regard to relevant professional standards and any requirements of this division.

(3) A projection must be specific to the Retail Client and be calculated on the basis of the Client's age and sex, the amount assured, the premium and other factors material to the Life Policy.

(4) However, if a projection is calculated for the purposes of a financial promotion or in relation to a single premium Life Policy, it must be calculated on the basis of factors that represent the average member of the group to whom it is directed or by whom it is likely to be received.

(5) In calculating the projection, contributions must be net of any rider benefits and extra premiums charged for increased underwriting benefits.

5.6.9 Life policies—provision of policy document

If an Authorised Firm finalises a Life Policy with or for a Client, the firm must, immediately after finalising the policy, give the Client, in a durable medium, a policy document containing all the terms of the policy.

5.6.10 Life policies—recordkeeping

(1) An Authorised Firm must ensure that a copy of a Product Disclosure Document given by it to a Retail Client in relation to a Life Policy is made and kept for at least 6 years, unless the Client does not take out the policy.

(2) An Authorised Firm must ensure that a copy of any other disclosure documentation given by it to a Retail Client in relation to a Life Policy is made and kept for at least 6 years, unless the Client does not take out the policy.

(3) An Authorised Firm must ensure that a record of the methodology and set of assumptions prepared and approved by the Approved Actuary for COB 5.6.8 (1) for the firm is made and kept for at least 6 years after the day the methodology or set of assumptions is replaced by a new methodology or set of assumptions.

(4) An Authorised Firm must ensure that a copy of each policy document given to a Client for a Life Policy under COB 5.6.9 is kept for at least 6 years after the day the policy ends.

5.6.11 Units in Collective Investment Schemes—additional content

An Authorised Firm must ensure that a Product Disclosure Document prepared by it for a Unit in a Collective Investment Scheme for a Retail Client includes the following:

(a) the statement required by COB 5.6.12 (Units in Collective Investment Schemes—opening statement);

(b) the information required by COB 5.6.13 (Units in Collective Investment Schemes—name and description of scheme etc);

(c) the information required by COB 5.6.14 (Units in Collective Investment Schemes—objectives and investment policies);

(d) the scale of risks and rewards and other information required by COB 5.6.15 (Units in Collective Investment Schemes— risk and reward profile);

(e) the projections required by COB 5.6.16 (Units in Collective Investment Schemes— projections);

(f) the table, notes and statements required by COB 5.6.17 (Units in Collective Investment Schemes—charges and expenses table);

(g) if applicable, the chart required by COB 5.6.18 (Units in Collective Investment Schemes—past performance chart);

(h) the statement required by COB 5.6.19 (Units in Collective Investment Schemes—closing statement).

5.6.12 Units in Collective Investment Schemes—opening statement

For COB 5.6.11(a), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include the following statement at the beginning of the document:

'This document provides you with important information about the scheme. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this scheme.

You are advised to read it so you can make an informed decision about whether to invest.'.

5.6.13 Units in Collective Investment Schemes—name and description of scheme etc

For COB 5.6.11 (b), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include the following information:

(a) the name of the scheme;

(b) the date the scheme was registered and the jurisdiction in which it was registered;

(c) if the scheme is an umbrella scheme—a statement to that effect and the name of each subscheme;

(d) the name and contact details of the operator of the scheme;

(e) the name and contact details of any independent entity (or custodian or trustee) for the scheme;

(f) if applicable, the name of the group of which the operator or independent entity (or custodian or trustee) is a member;

(g) the name and contact details of the auditor of the scheme;

(h) the date the scheme started to operate or, if the scheme has not started to operate, when the scheme is expected to operate;

(i) if the duration of the scheme is limited—

 (i) a statement to that effect; and

 (ii) an indication of the duration of the scheme; and

 (iii) if appropriate, a statement of any conditions for extending the duration of the scheme;

(j) if applicable, the risks associated with the use of hedging, arbitrage or leverage techniques and how their use may affect the scheme's performance;

(k) whether income arising from the scheme will be distributed or reinvested;

(l) a statement that an investor may redeem units on demand or of the conditions that must be satisfied before an investor can redeem units;

(m) how frequently units will be dealt in;

(n) if applicable, the likely impact of portfolio transactions costs;

(o) if applicable, the minimum recommended holding term for a Unit or class of units;

(p) where and how an investor may obtain information about the scheme (including its prospectus, reports and accounts) and units in the scheme (including classes of units and latest Unit prices).

5.6.14 Units in Collective Investment Schemes—objectives and investment policies

For COB 5.6.11(c), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include the following information:

(a) a description of the aims of the scheme;

(b) a description of the commitment involved in investing in the scheme, including, if applicable, any minimum investment amount or minimum investment period;

(c) the types of investments (including financial instruments and debt instruments) in which the scheme may invest;

(d) if applicable, a statement of the particular investment targets the scheme has in—

 (i) industrial, geographic or other market sectors; or

 (ii) specific classes of assets;

Example
investments in financial instruments of emerging economies

(e) if applicable, the discretionary choices that the operator may make about investments;

(f) if applicable, the factors that will guide the operator in the choice of investments;

Examples of factors that may guide choice
growth, value or high returns

(g) whether—

(i) the scheme refers to a benchmark; or

(ii) the scheme is intended to track an index;

(h) if applicable, sufficient information to enable an investor to identify any benchmark or index mentioned in paragraph (g) and understand the extent of benchmarking or tracking.

5.6.15 Units in Collective Investment Schemes—risk and reward profile

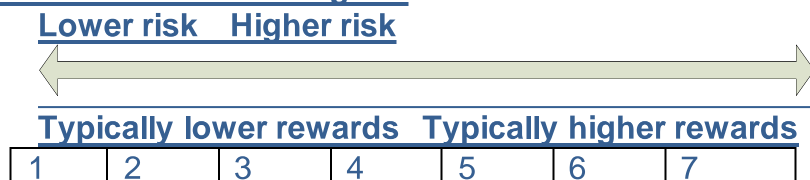
(1) For COB 5.6.11(d), the Product Disclosure Document for a Unit in a Collective Investment Scheme must—

(a) include the scale of risks and rewards in the diagram below (the Scale of Risks and Rewards Diagram); and

(b) indicate the risk category (from 1 to 7) in which the scheme falls in the scale by shading the appropriate box; and

(c) explain briefly why the scheme falls in that category.

Scale of Risks and Rewards Diagram



(2) The Scale of Risks and Rewards Diagram must be accompanied in the Product Disclosure Document by—

(a) an explanation of its use and limitations, including—

(i) that the risk category indicated is not guaranteed and may change over time; and

(ii) that the risk category may not adequately capture all the risk factors relevant to the scheme; and

(iii) that the lowest risk category does not mean that a scheme in that category is risk free; and

(iv) that historical data may not be a reliable indicator of future performance of the scheme; and

(b) details of the nature, timing and extent of any capital guarantee or protection given for the scheme.

(3) If the risk category for the scheme does not adequately capture all the risk factors relevant to the scheme, the Product Disclosure Document must include a list of all those factors and give an explanation of how each factor is materially relevant to the scheme.

(4) The risk factors that may or may not be adequately captured in the scheme's risk category and that may or may not be relevant to the scheme include—

(a) market risk, including—

(i) the risk that the entire market for an asset or a class of assets will decline and affect the value of the asset or assets; and

(ii) whether the value of the capital and any income from it might fluctuate; and

(iii) particular risks (if any) associated with the underlying assets in which the scheme may invest; and

(iv) particular risks (if any) associated with the markets in which investments may be made; and

(v) volatility, and the fact that the loss on realisation of the investment could be very high, even equalling the amount originally invested; and

(b) credit risk, if a significant level of investment is made in debt instruments; and

(c) liquidity risk, including—

(i) if a significant level of investment is made in financial instruments that are likely to have a low level of liquidity in certain circumstances—the risk that a position cannot be liquidated quickly at a reasonable price; and

(ii) potential liquidity problems with property investments, that redemption might be delayed during a period when the property is not readily saleable, and that property valuation is a matter of judgment by a valuer; and

(d) counterparty risk, if the scheme is backed by a guarantee from, or has material investment exposure through contracts with, a third party; and

(e) settlement risk, if a settlement in a transfer system used by the scheme does not take place as expected because a counterparty does not pay or deliver on time or as expected; and

(f) operational risk, including risk associated with safeguarding of assets; and

(g) the risk from the use of investment techniques such as the use of derivative contracts.

(5) Any information required to be given under this rule must be presented in the Product Disclosure Document—

(a) so that the order in which information is given takes into account the scale and relevance of the risks to which the information relates; and

(b) in a way that best highlights the risk and reward profile of the scheme.

5.6.16 Units in Collective Investment Schemes—projections

(1) For COB 5.6.11 (e), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include projections of the future values of the actual amount that the Retail Client is proposing to invest.

(2) The projections must—

(a) show 3 scenarios of market conditions in the following order:

(i) unfavourable;

(ii) medium;

(iii) favourable; and

(b) state the returns under each scenario (including, if applicable, negative returns); and

(c) be based on reasonable, conservative assumptions about future market conditions and price movements; and

(d) be presented in a way that is fair, clear and not misleading, and likely to be understood by the average Retail Client; and

(e) be accompanied in the Product Disclosure Document by a statement that the projections are for illustration purposes only and do not represent a forecast of what might happen.

5.6.17 Units in Collective Investment Schemes—charges and expenses table

(1) For COB 5.6.11 (f), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include a table illustrating the effect of charges and expenses on the investment.

(2) The table must be substantially in the form of table below (the Charges and Expenses for the Scheme Table) and must include the notes and statements following the table.

Charges and Expenses for the Scheme Table

One-off charges taken before or after you invest	
Entry charge	[*insert percentage*]%[1]

Exit charge [*insert percentage*]%[1]
This is the maximum that might be taken out of your money [*insert as applicable* before it is invested *or* before the proceeds of your investment are paid out].
Charges taken from the fund over a year
Ongoing charges [*insert percentage*]%[2]
Charges taken from the fund under certain specific conditions
Performance fees [*insert percentage*]% a year of any returns the fund achieves above the [*insert name of benchmark*].

"Note 1 The percentages shown in the entry and exit charges are the maximum figures. In some cases you might pay less.

Note 2 The percentage for the ongoing charges is based on expenses for the year ending [*insert year*]. This figure may vary from year to year. Ongoing charges excludes—

- performance fees
- portfolio transaction costs, other than entry and exit charges incurred when buying or selling units in another Collective Investment Scheme.

Statements about charges and expenses

The charges you pay are used to pay the costs of running the scheme, including the costs of marketing and distributing it. These charges reduce the potential growth, and rate of return, of your investment.

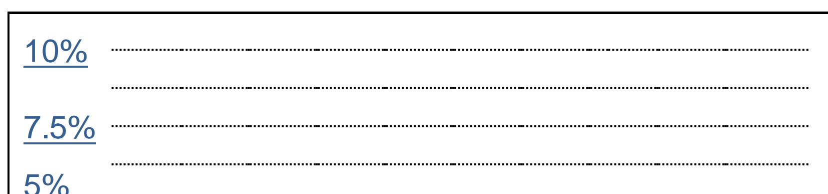
For more information about charges, please see pages [x] to [y] of the scheme's prospectus, which is available [explain how the prospectus can be obtained]."

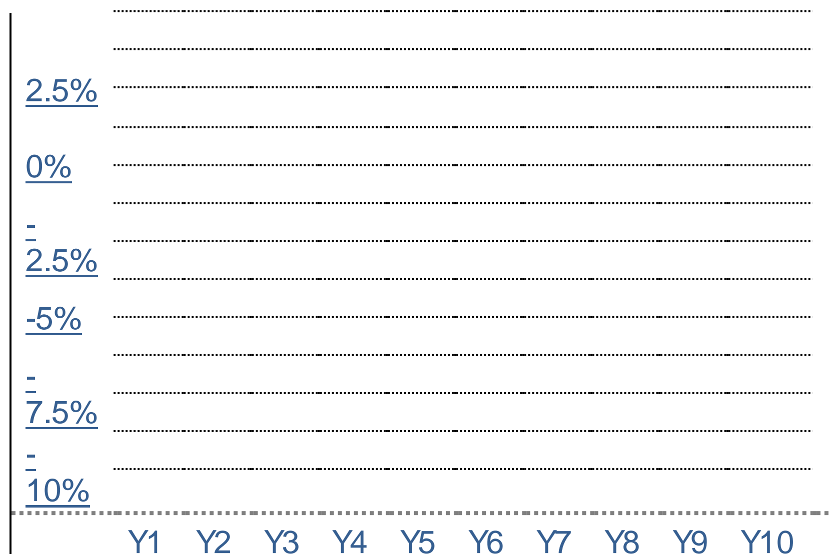
5.6.18 Units in Collective Investment Schemes—past performance chart

(1) For COB 5.6.11 (g), the Product Disclosure Document for a Unit in a Collective Investment Scheme that has been operating for at least 3 years must include a chart illustrating the past performance of the scheme.

(2) The chart must be substantially in the form of the chart below (the Past Performance Chart) and must comply with subrule (3) and, if applicable, subrules (4) and (5).

The Past Performance Chart





(3) The chart must—

(a) be based on complete 12-month periods; and

(b) cover the annual returns of the scheme for the last 10 years or, if it has been operating for less than 10 years, the entire period for which the scheme has been operating (but never less than 3 consecutive years); and

(c) be accompanied in the Product Disclosure Document by—

(i) a statement of the year the scheme started operating; and

(ii) a statement about the currency used to calculate annual returns and the charges included in, or excluded from, the calculation of annual returns; and

(iii) a statement about the basis and source of the performance information; and

(iv) a warning about the limited value of the chart as a guide to future performance.

(4) If a Collective Investment Scheme refers to a benchmark or tracks an index, or any performance fee in relation to the scheme is dependent on a benchmark, the Past Performance Chart must include a comparison of the past performance of the scheme against the past performance of the benchmark or index.

(5) Any comparison under subrule (4) must be made, and shown on the chart, on a like-for-like basis and in a way that is fair, clear and not misleading.

5.6.19 Units in Collective Investment Schemes—closing statement

For COB 5.6.11 (h), the Product Disclosure Document for a Unit in a Collective Investment Scheme must include the following statement at the end of the document:

'This scheme is registered in [insert jurisdiction] and regulated by the [insert name of regulator].

This Product Disclosure Document is accurate as at [insert date of publication].'.

5.6.20 Units in Collective Investment Schemes—recordkeeping

(1) An Authorised Firm must ensure that a copy of a Product Disclosure Document, or any other disclosure documentation, given by it to a Retail Client in relation to a proposed investment in units in a Collective Investment Scheme is made and kept for at least 6 years, unless the Client does not proceed with the investment.

(2) An Authorised Firm must ensure that a copy of any other disclosure documentation given by it to a Retail Client in relation to a Unit in a Collective Investment Scheme is made and kept for at least 6 years, unless the Client does not take out the policy.

………

19. CONDUCT OF INSURANCE BUSINESS

19.1. Insurance business—general

19.1.1. Application

This chapter applies to Insurers.

19.2. Cancelling Life Policies—Retail Clients

19.2.1. New Life Policies—right to cancel

A Retail Client has a right to cancel, in accordance with the rules under COB 19.2, a new Life Policy effected by an Insurer.

Guidance

An Insurer may voluntarily provide additional cancellation rights, or rights exercisable during a longer period than allowed under this division, but, if it does so, these should be on terms similar to those in this division.

19.2.2. Variations of Life Policies—right to cancel

(1) A Retail Client has a right to cancel an existing Life Policy effected by an Insurer if the policy is varied and the variation has the effect of—

(a) increasing regular premiums or payments, or a single premium or payment, by more than 25% on the original premium or payment (or the previous highest agreed premium or payment); or

(b) introducing fresh policy terms; or

(c) imposing on the Client additional or increased obligations under the policy; or

(d) reducing, or otherwise materially altering, the Client's benefits under the policy.

(2) This rule does not apply to the variation of a Life Policy if—

(a) the variation is the result of a pre-selected option; or

(b) the variation arises out of the settlement of a claim for damages or compensation connected with a previous contract.

19.2.3. Life policies—when cancellation right can be exercised

(1) A Retail Client may exercise a cancellation right in relation to a Life Policy effected by an Insurer with the Client only during the cancellation period for the investment.

(2) For a new Life Policy, the cancellation period—

(a) starts on the day the Authorised Firm gives the Retail Client a policy document containing all the terms of the policy under COB 5.6.9 (Life policies—provision of policy document); and

(b) ends at the end of 30 days after that day.

(3) For an existing Life Policy that is varied, the cancellation period—

(a) starts on the later of the following:

(i) the day the Authorised Firm tells the Retail Client that the variation has taken effect;

(ii) the day the Authorised Firm gives the Retail Client a written copy of the variation;

(iii) the day the Authorised Firm gives the Retail Client the Product Disclosure Document or disclosure documentation required by COB 5.6.2 (Product disclosure document—provision requirement) for the variation; and

(b) ends at the end of the 30 days after that day.

19.2.4. Life policies—exercising cancellation right

(1) This rule applies if a Retail Client has a right under COB 19.2.1) New Life Policies—right to cancel**(** or COB 19.2.2 (Variations of Life Policies—right to cancel) to cancel a Life Policy effected by an Insurer with the Client.

(2) The Retail Client may exercise the cancellation right by giving notice of the exercise of the right to the Insurer in a durable medium.

(3) Without limiting subrule (2), if the Retail Client exercises the right in accordance with information given to the Client by the Insurer, the Client is taken to have complied with the subrule.

(4) The notice need not use any particular form of words and it is sufficient if the intention to exercise the right is reasonably clear from the notice or the notice and the surrounding circumstances.

(5) The notice need not give reasons for the exercise of the right.

(6) If the Retail Client exercises the cancellation right by sending notice to the Insurer at the address given to the Client by the firm for the exercise of the right and the notice is in a durable form accessible to the firm, the notice is taken to have been given to the firm when it is sent to the firm at that address.

19.2.5 Life policies—consequences of cancellation

(1) This rule applies if a Retail Client exercises a right under this division to cancel a Life Policy effected by an Insurer with the Client.

(2) The Life Policy is terminated.

(3) For a new Life Policy, the Insurer must pay the Retail Client an amount equal to the total of the amounts paid by the Client in relation to the Life Policy.

(4) The amount must be paid to the Retail Client without delay and no later than 30 days after the day the cancellation right is exercised.

(5) For a new Life Policy, the Retail Client must, if required by the Insurer, pay the firm an amount of no more than the total of—

(a) amounts received, and the value of property or services received, by the Client in relation to the Life Policy; and

(b) losses incurred by the firm because of market movements in relation to relevant contracts if the losses are incurred on or before the day the cancellation right is exercised.

(6) Subrule (5) only applies if the Insurer can demonstrate that the Retail Client was given, under COB 5.6.2 (Product disclosure document—provision requirement), details of the amount that the Client may be required to pay if the Client cancelled the contract.

(7) However, subrule (5) (b) does not apply in relation to a contract established on a regular or recurring premium or payment basis.

(8) An amount payable by the Retail Client under subrule (5) must be paid to the Insurer without delay and no later than 21 days after the day the Client receives written notice from the firm requiring payment of the amount.

(9) For an existing Life Policy, the Insurer must pay the Retail Client an amount equal to the cash surrender value (if any) of the policy.

(10) The amount must be paid to the Retail Client without delay and no later than 30 days after the day the cancellation right is exercised.

(11) Any amounts payable under this rule are simple contract debts and, for a new Life Policy, the amounts payable may be set off against each other.

19.3. Cancelling Non-Investment Insurance Contracts

19.3.1. Non-Investment Insurance Contracts —right to cancel

(1) A Retail Client has a right, in accordance with this division, to cancel a Non-Investment Insurance Contract effected by an Insurer.

(2) This rule does not apply to the following contracts:

(a) a Non-Investment Insurance Contract that provides cover for less than 1 month;

(b) a Non-Investment Insurance Contract that has been fully performed by both parties at the Retail Client's express request before the Client purports to exercise the right to cancel;

(c) a Non-Investment Insurance Contract that is a Pure Protection Contract with a term of 6 months or less.

(3) To remove any doubt, a Retail Client has a right to cancel a Non-Investment Insurance Contract when the contract is initially entered into and on each renewal of the contract.

Guidance

1 An Authorised Firm may voluntarily provide additional cancellation rights, or rights exercisable during a longer period than allowed under this division, but, if it does so, these should be on terms similar to those in this division.

2 For COB 19.3.1 (2) (b)—

(a) a contract is not fully performed only because an event has happened that allows a claim to be made under the contract; and

(b) a contract is fully performed if a claim has been made that leads to the contract being terminated.

3 Cancellation under this part applies only during the initial period of cover. It does not refer to mid-term cancellation that an Authorised Firm may choose to offer its Clients.

4 The cancellation rights described in this part apply to all renewals and not just those where there have been significant changes.

19.3.2. Non-Investment Insurance Contracts—when cancellation right can be exercised

(1) A Retail Client may exercise a cancellation right under this division in relation to a Non-Investment Insurance Contract only during the cancellation period for the contract.

(2) For a Non-Investment Insurance Contract that is a Pure Protection Contract, the cancellation period—

(a) starts on the day the Authorised Firm gives the Retail Client the policy document and information required by COB 11.7.2 (Confirmation of cover); and

(b) ends at the end of 30 days after that day.

(3) For a Non-Investment Insurance Contract that is a General Insurance Contract, the cancellation period—

(a) starts on the day the Authorised Firm gives the Retail Client the policy document and information required by COB 11.7.2 (Confirmation of cover); and

(b) ends at the end of 14 days after that day.

(4) If a Non-Investment Insurance Contract is a mixed contract, that is, it has elements of both a Pure Protection Contract and a General Insurance Contract, subrule (2) applies to the contract and subrule (3) does not apply to the contract.

19.3.3. Non-Investment Insurance Contracts —exercising cancellation right

(1) This rule applies if a Retail Client has a right under this division to cancel a Non-Investment Insurance Contract effected by an Authorised Firm.

(2) The Retail Client may exercise the cancellation right by giving notice of the exercise of the right to—

(a) the Authorised Firm; or

(b) any agent of the firm with authority to accept notice for the firm.

(3) Without limiting subrule (2), if the Retail Client exercises the right in accordance with information given to the Client in accordance with COB 11.7.2 (Confirmation of cover), the Client is taken to have complied with the subrule.

(4) The notice may be given orally.

(5) The notice need not use any particular form of words and it is sufficient if the intention to exercise the right is reasonably clear from the notice or the notice and the surrounding circumstances.

(6) The notice need not give reasons for the exercise of the right.

(7) If the Retail Client exercises the cancellation right by sending notice to the Authorised Firm at the address given to the Client by the firm for the exercise of the right and the notice is in a durable form accessible to the firm, the notice is taken to have been given to the firm when it is sent to the firm at that address.

19.3.4. Non-Investment Insurance Contracts—consequences of cancellation

(1) This rule applies if a Retail Client exercises a right under this division to cancel a Non-Investment Insurance Contract effected by an Authorised Firm.

(2) The Contract of Insurance is terminated.

(3) The Authorised Firm must pay to the Retail Client an amount equal to the total of the amounts paid by the Client for the Contract of Insurance.

(4) The amount must be paid to the Retail Client without delay and not later than 21 days after the day the cancellation right is exercised.

(5) If the Contract of Insurance is a General Insurance Contract, the Retail Client must, if required by the Authorised Firm, pay the firm an amount of no more than the total of—

(a) the value of the services the firm actually provided to the Client in relation to the Contract of Insurance; and

(b) amounts received, and the value of property or services received, by the Client in relation to the Contract of Insurance.

(6) However, the Authorised Firm may only require the Retail Client to pay an amount under subrule (5) if—

(a) the performance of the Contract of Insurance started before the end of the cancellation period at the Client's request; and

(b) the firm can demonstrate that the Client was, under COB 11.7.2 (Confirmation of cover), given details of the amount that the Client may be required to pay if the Client cancelled the contract.

(7) The Authorised Firm must not require the Retail Client to pay an amount under subrule (5) that could be taken to be a penalty or that exceeds an amount calculated as follows:

$$AC + CC$$

(8) In subrule (7):

(a) AC means the total of the costs (other than costs for the cover provided under the insurance policy) actually incurred by the firm in relation to the insurance policy.

(b) CC means the cost to the firm of the cover actually provided to the Client under the insurance policy.

Guidance for COB 19.3.4 (7) and (8)

1 The amount calculated under COB 19.3.4 (7) may include—

(a) an amount for the cover provided; and

(b) a proportion of the commission paid to another Authorised Firm sufficient to cover that firm's costs; and

(c) a proportion of any fees charged by the Authorised Firm that, when totalled with any commission to be repaid, would be sufficient to cover the firm's costs.

2 The AFSA would expect the proportion of the Contract of Insurance's exposure that relates to the time on risk to be a proportional apportionment. But, if there is material unevenness in the incidence of risk, the insurer could employ a more accurate method, which may result in a lower or higher charge to the Retail Client.

(9) An amount that the Authorised Firm requires the Retail Client to pay under subrule (5) must not take into account or include an amount received, or the value of any property or services received, by the Client in relation to a claim under the insurance policy.

(10) An amount payable by the Retail Client under subrule (5) must be paid to the Authorised Firm without delay and no later than 30 days after the day the Client receives written notice from the firm requiring payment of the amount.

(11) Any amounts payable under this rule are simple contract debts and may be set off against each other.

Cancelling Contracts of Insurance—recordkeeping

19.3.5. Contracts of Insurance cancellation—recordkeeping

(1) An Authorised Firm must make appropriate records about the exercise of a right to cancel under COB 19.2 (Cancelling Life Policies—Retail Clients) or COB 19.3 (Cancelling Non-Investment Insurance Contracts).

(2) The records must be kept for at least 6 years after the day the right is exercised.

19.4. Claims handling

19.4.1. Claims handling—general requirements

(1) If an Authorised Firm handles insurance claims, it must handle claims fairly and promptly and keep the client informed of progress.

(2) If an Authorised Firm effects a Contracts of Insurance with or for a client, it must give the client reasonable guidance in pursuing a claim under the policy.

(3) If an Authorised Firm cannot deal with any part of a claim under a Contracts of Insurance it effected with or for a client, it must tell the client in writing.

(4) An Insurer must not—

(a) unreasonably reject a claim made by a client; nor

(b) except if there is evidence of fraud, refuse to meet a claim made by a Retail Client on any of the following grounds:

(i) non-disclosure of a fact material to the risk that the Client could not reasonably be expected to have disclosed;

(ii) misrepresentation of a fact material to the risk, unless the misrepresentation is negligent or wilful;

(iii) for a General Insurance Contract—breach of warranty or condition, unless the circumstances of the claim are connected with the breach;

(iv) for a Non-Investment Insurance Contract that is a Pure Protection Contract—breach of warranty, unless the circumstances of the claim are connected with the breach and—

(A) for a life of another contract—the warranty relates to a statement of fact about the life to be assured and that statement would have been grounds for rejection of a claim by the firm under paragraph (b) (i) or (ii) if it had been made by the life to be assured under an own life contract; or

(B) the warranty is material to the risk and was drawn to the attention of the Client before the conclusion of the contract.

19.4.2. Claims handling—claims by Retail Clients

(1) An Insurer must respond promptly to a notification of a claim by a Retail Client.

Guidance

Notification of a claim is a demand of the Authorised Firm to pay or provide a benefit insured under the policy. An inquiry that precedes such a demand, for example, about whether a particular loss is covered, and therefore whether a claim could be made under the terms of the policy, is not notification of a claim.

(2) If the claim relates to a risk that is clearly outside the scope of the policy, the Insurer's response to the Retail Client must tell the Client this.

(3) If the claim does not relate to a risk that is clearly outside the scope of the policy, the Insurer's response to the Retail Client must—

(a) tell the Client about the action that will be taken by the firm in response to the claim, and when the action will be taken; and

(b) if the firm has appointed, or is to appoint, another person to contact the Client for the firm—include the following information, if known, for each person appointed or to be appointed:

(i) the person's name (unless the person trades under the firm's name);

(ii) the person's function;

(iii) the work the person is to carry out in relation to the claim.

(4) However, the Insurer need not include the information mentioned in subrule (3) (b) in the response if—

(a) the purpose of the appointment is to investigate the validity of the claim; and

(b) including the information would limit or prevent the effective investigation of the claim or any part of it.

(5) The Insurer's response must—

(a) be in a durable medium, unless the notification by the Retail Client was made orally and the firm does not require the Client to complete a claim form; and

(b) provide the Client with a claim form, if the firm requires a claim form to be completed.

(6) The Insurer must keep the Retail Client reasonably informed about the progress of the claim.

Guidance

1 If the investigation of a claim is likely to be protracted, the Authorised Firm should give periodic progress or status reports, when appropriate, to the Retail Client, including giving the Client any relevant update about the information given under COB 19.4.2 (3) (b).

2 The Authorised Firm should also respond without excessive delay to any reasonable request by the Retail Client for information.

(7) The Insurer must tell the Retail Client as soon as practicable whether it—

(a) rejects all of the Client's claim; or

(b) rejects the Client's claim but, without prejudice to the rejection, makes an offer in compromise; or

(c) accepts all or part of the Client's claim.

(8) If the Insurer rejects the claim, but without prejudice to the rejection makes an offer in compromise, it must tell the Retail Client the terms of the offer as soon as practicable.

(9) If the Insurer accepts all or part of the Retail Client's claim, it must tell the Client as soon as practicable whether—

(a) for the parts it accepts—it agrees to provide the amount, property or service claimed by the Client in full; or

(b) it makes some other offer in compromise and, if so, the terms of its offer.

(10) Unless the Insurer accepts the Retail Client's claim in full, the firm must—

(a) explain why it rejects all or part of the Client's claim or makes a compromise offer, specifying any relevant term of the policy; and

(b) offer the Client the choice of receiving the information mentioned in paragraph (a) in a durable medium.

(11) The Insurer must, in relation to each part of the claim that it accepts, tell the Retail Client whether the claim will be settled by paying the Client, by paying another person to provide goods or services, or by providing goods or services.

(12) If a claim, or a part of a claim, by a Retail Client is to be settled, the Insurer must settle the claim by the Client promptly.

Guidance

Settlement terms are agreed when the Authorised Firm accepts the Retail Client's claim and the Client accepts the firm's offer of settlement.

19.4.3. Claims handling—Long Term Care Insurance Contracts

(1) If an Insurer receives a claim under a Long Term Care Insurance Contract, it must respond promptly by providing the policyholder, or the person acting for the policyholder, with—

(a) a claim form, if it requires a claim form to be completed; and

(b) a summary of its claims-handling procedures; and

(c) appropriate information about the medical criteria that must be met and any waiting period that applies under the terms of the policy.

(2) As soon as practicable after receiving the claim, the Insurer must tell the policyholder, or the person acting for the policyholder—

(a) for each part of the claim it accepts—whether the claim will be settled by paying the policyholder, paying another person to provide goods or services, or providing goods and services; and

(b) for each part of the claim it rejects—why the claim has been rejected and whether any future rights to claim exist.

19.4.4. Claims handling—recordkeeping

(1) An Insurer must make a record of the following information in relation to each claim made against a policy issued by it or handled by it:

(a) details of the claim;

(b) the date the claim was settled or rejected;

(c) details of settlement or rejection, including information relevant to the basis for the settlement or rejection.

(2) The Insurer must keep the record for at least 3 years after the day the claim is settled or rejected.

In this section, the underlining indicates a new text and the striking through indicates deleted text in the proposed amendments.

PROPOSED AMENDMENTS TO THE AIFC FEES RULES

Schedule 1: APPLICATION FEES PAYABLE TO THE AFSA FOR REGULATED ACTIVITIES

1.1 Application fees for applying for Licence to carry on Regulated Activities

Application fees are determined by the activities the Authorised Firm conducts or intends to conduct, as set out below:

Application fee by activities	Fee (USD)
Operating a Representative Office	3000
Managing a Collective Investment Scheme	5000
Arranging Custody	5000
Providing Fund Administration	5000
Advising on Investments	5000
Arranging Deals in Investments	5000
Insurance Intermediation	5000
Managing Investments	5000
Providing Custody	5000
Providing Trust Services	5000
Acting as the Trustee of a Fund	5000
Dealing in Investments as Agent	10 000
Dealing in Investments as Principal	10 000
Managing a Restricted Profit Sharing Investment Account	10 000
Islamic Banking Business	15 000
Providing Islamic Financing	10 000
Accepting Deposits	15 000
Providing Credit	10 000
Advising on a Credit Facility	5000
Arranging a Credit Facility	5000
Providing Money Services	5000
Conducting Insurance Business (Effecting Contracts of Insurance or Carrying Out Contracts of Insurance)	10 000
Conducting Captive Insurance Business through a Protected Cell Company	8000 plus 1000 for each cell
Conducting Captive Insurance Business other than through a Protected Cell Company	5000
Providing Captive Insurance Management	5000