TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION
Capital Adequacy and Solvency Guidelines for Domestic Insurers

1. Introduction

This Guideline applies specifically to all domestic insurers[1], licensed to transact insurance business in the Turks and Caicos Islands ("TCI"). It is issued by the Financial Services Commission ("the Commission") pursuant to Section 43 of the Financial Services Commission Ordinance ('FSCO") and Regulation 6 of the Insurance Regulations to provide guidance on the level of capital needed to provide an adequate solvency margin for licensed insurers.

2. Quality of Capital

An insurer must hold sufficient capital to maintain the minimum solvency margin and is advised to consult the Commission in advance of issuing any capital instrument to avoid any dispute over the eligibility of capital. The criteria for adequacy in respect of each capital instrument take into account the extent to which each instrument:

[1] Domestic Insurer: An insurer, licensed under section 4 (1) (a) of the Insurance Ordinance, whose principal objective is to insure risks in relation to:

(a) a person who, at the time of effecting the contract, is ordinarily resident in the Islands; or
(b) property that, at the time of effecting the contract, is in the Islands or, in the case of a vehicle, vessel or aircraft, or other movable property is ordinarily based in the Islands

a. provides a permanent and unrestricted commitment of funds;
b. is freely available to absorb losses from business activities;
c. does not impose unavoidable service charges against earnings; and
d. ranks behind claims of policyholders and other creditors in the event of winding-up.

3. Definition of Capital

The insurer's core capital should be comprised of the highest quality capital elements, calculated net of goodwill, intangible assets and future income tax benefits and may include;

a. paid-up ordinary shares;
b. general reserves;
c. retained earnings;
d. current year's earnings after dividends and tax;
e. surplus reserves in excess of the required amount, which, for life insurers, comprise surplus on both participating and non-participating business;
f. non-cumulative irredeemable preference shares; and
g. other "innovative" capital.

Items (f) and (g) require the Commission's approval as to both validity and amount which can be used. Additionally, any reduction of capital or repurchase of own instruments requires the Commission's approval, and a capital plan would be required showing adequacy for future needs.

4. Minimum Capital and Solvency Margin

Insurers are required at all times to hold sufficient capital to maintain a solvency margin that is adequate to enable the insurer to meet its liabilities under all significant but plausible unforeseen events, taking into account the nature, size, complexity, structure, risk profile and diversity of the business. Additionally, "Guidelines on the Issues of Insurance Licences in the Turks and Caicos Islands" stipulates that capital levels should be determined by the size of the company, the kinds of business written and the past and anticipated trend in the size of the company's capital.

Minimum Solvency Margin

The solvency margin created by additional capital provides a safety buffer against events that may occur that are outside the normal range of events that can reasonably be expected and for which provisions have been made in valuing the liabilities. The Commission recommends a Minimum Solvency Margin of 100% for domestic TCI Business and for consolidated business. The solvency margins calculated at an insurer's year end, for TCI only business as well as on consolidated business must be certified by an independent auditor. The calculation for Actual Solvency Margin and Minimum Solvency Margin to be used by domestic insurers is shown in Appendix 1.

5. Assets

Admissible Assets

All assets are admissible except those that are either fully or partially non-admitted or non-admissible.

Non-admissible Assets

Any asset may be deemed a fully non-admissible or partially non-admissible asset if in the opinion of the Commission the asset is valued in excess of its realizable value. Fully or partially non- admitted and non-admissible assets comprise:

a. goodwill and other intangible assets (100% discount);
b. all deferred acquisition costs including but not limited to deferred acquisition cost and deferred tax credits (100% discount);
c. non-performing mortgage loans, agents' debit balances, outstanding premiums and accounts receivables outstanding for 90 days or more to the extent that the value of these assets is in excess of the related provision for doubtful accounts that has been established by the Insurer (100% discount);
d. capitalized value of any computer software (100% discount);
e. ordinary shares of private, unaudited corporations (100% discount);
f. prepaid expenses (100% discount);
g. unsecured cash advances to or in the hands of officers or agents (100% discount);

h. all non-sufficient funds, Post Dated, Payment Stopped or otherwise non-bankable cheques (100% discount);
i. the value of subsidiaries and affiliates in related business. banks and Insurers (100% discount);
j. amounts receivable or due from a person with whom an insurer is affiliated, unless permission to the contrary has been received from the Commission (100% discount);
k. Real estate (30% discount);
l. Any investments in excess of the limits outlined in the guideline on “Asset Management & Investment Strategy” issued by the Commission (100% discount).

Insurers are expected to seek clarification from the Commission where the treatment of specific non-admissible assets is not covered in these guidelines or for which the recommended treatment seems inadequate.

6. Supervisory Review and Assessment

An insurer will be required to disclose quarterly to the Commission the individual components of its capital base. Additionally an insurer is required to:

a. maintain at all times a level and quality of capital commensurate with the level and extent of risks to which the insurer is exposed from its activities;
b. document how it determines its target capital level for supporting the degree of risks associated with its current activities and its overall business plans;
c. document its strategy for maintaining appropriate capital resources over time, including how the required level of capital is to be met and the procedures for monitoring compliance with minimum capital requirements; and
d. ensure that its capital assessment is subject to effective and comprehensive review.

Financial Services Commission

1st August 2014

Appendix 1 Schedule A, B and Auditors Certificate

TURKS & CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

THE INSURANCE ORDINANCE 1989 (CAP. 16.06)
THE INSURANCE REGULATIONS 1990 (CAP. 16.06)

FORM SAS 2/99: SOLVENCY ASSESSMENT SCHEDULE A

GENERAL INSURANCE BUSINESS

PLEASE COMPLETE ALL SECTIONS OF THIS FORM AS FULLY AS POSSIBLE.

Insurance Company Name	
Financial Year End	

A ***Calculation of Actual Solvency Margin (ASM)***

1 Aggregate value of Permitted Assets at Balance Sheet date $

2 Aggregate value of Liabilities at Balance Sheet date (minus) $

3 **Actual Solvency Margin A.(1) – A.(2)** $
(N.B. See Insurance Regulations for Prohibited/Permitted Assets)

B ***Calculation of Minimum Solvency Margin (MSM)***

1 20% of Net Annual Premium (N.A.P.) up to $5M $

2 Where N.A.P. over $5M: $1M $

Total B.(1) + B.(2) (MSM) $

C **A. (3) (ASM) above as a percentage of B. (MSM)** ______ %

Solvency Assessment Schedule A Page 1 *General Insurance Business*

TURKS & CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

THE INSURANCE ORDINANCE 1989 (CAP. 16.06)
THE INSURANCE REGULATIONS 1990 (CAP. 16.06)

FORM SAS 2/99: SOLVENCY ASSESSMENT SCHEDULE B

LIFE INSURANCE BUSINESS

PLEASE COMPLETE ALL SECTIONS OF THIS FORM AS FULLY AS POSSIBLE.

Insurance Company Name	
Financial Year End	

A ***Calculation of Actual Solvency Margin (ASM)***

1	Aggregate value of Permitted Assets at Balance Sheet date	$
2	Aggregate value of Liabilities at Balance Sheet date (minus)	$
3	**Actual Solvency Margin A.(1) – A.(2)** (N.B. See Insurance Regulations for Prohibited/Permitted Assets)	**$**

B ***Calculation of Minimum Solvency Margin (MSM)***

1	Net Annual Premium (N.A.P.)	$
	MSM	**$**

C **A. (3) (ASM) above as a percentage of B. (MSM)** ______ %

Calculation Sheet for:

☐ Consolidated Business

☐ Domestic Business

____
Independent Auditor (SIGNATURE)

____
Date

TURKS & CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

THE INSURANCE ORDINANCE 1989 (CAP. 16.06)
THE INSURANCE REGULATIONS 1990 (CAP. 16.06)

FORM A.S.S 2/99: INDEPENDENT AUDITOR'S SOLVENCY CERTIFICATE

ANNUAL DECLARATION

PLEASE COMPLETE ALL SECTIONS OF THIS FORM

Insurance Company	
Year End	

PART I-CONSOLIDATED BUSINESS

Based on my/our examination of the captioned Insurance Company's **CONSOLIDATED** Audited Financial Statements for the year ending ______. I/We confirm that its SOLVENCY MARGIN (permitted assets less liabilities) was then $ ______ OR ______ % of its minimum required Net Worth.

Calculation Sheet Form SAS 2/99 Schedule: ☐A, ☐B, or ☐C is attached.

PART II - DOMESTIC (TURKS & CAICOS ISLANDS) BUSINESS

Based on my/our examination of the captioned Insurance Company's **DOMESTIC** Audited Financial Statements for the year ending ______. I/We confirm that its SOLVENCY MARGIN (permitted assets less liabilities) was then $ ______ OR ______ % of its minimum required Net Worth.

Calculation Sheet Form SAS 2/99 Schedule: ☐A, ☐B, or ☐C is attached.

____
Independent Auditor

____
Date