



**FINANCIAL SERVICES COMMISSION**  
**Discussion Paper**  
**Draft Minimum Capital Test Guideline for General Insurance**  
**Companies**  
**May 2007**

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## **INTRODUCTION**

The Financial Services Commission (“FSC”) is seeking to introduce a new risk-based capital test for the general insurance industry, namely the Minimum Capital Test (“MCT”). The test, which is based on the Canadian insurance regulator’s MCT, assesses the riskiness of assets and policy liabilities by applying various factors and margins. It is an “excess of capital” measure which compares capital available to capital required.

The advantages of the MCT over the current Minimum Asset Test (“MAT”) include:

1. it relates capital required to the risks assumed. For example, under the MAT investment risk is not addressed so an insurer with a relatively risky investment portfolio could have the same capital requirement as an insurer with a conservative portfolio. Also, the MAT does not distinguish between the risks of short-term property claims and longer term liability claims; and
2. it is consistent with the approaches used in the supervision of other areas of the financial sector – life insurance (Minimum Continuing Capital Solvency Requirement – MCCSR) and deposit taking institutions.

The draft MCT Guideline provides the general framework for the calculation of the MCT and the assessment of whether a general insurer has sufficient capital under the Insurance Act and Regulations.

## **MINIMUM CAPITAL TEST (MCT)**

1. One of the grounds for the cancellation of the registration of a general insurance company under section 15(1) of the *Insurance Act, 2001* is that it is insolvent. Insolvency, under section 53, is deemed to have occurred if the value of a company's assets does not exceed its liabilities (capital) by such amount as the Financial Services Commission (the Commission) may prescribe, having regard to the types of risks the company may be subject, including insurance, credit or investment risks.
2. This Guideline provides the framework within which the Commission assesses whether a general insurance company has sufficient capital.
3. The MCT will apply to general companies including branches on a trial basis beginning December 2007, in parallel with existing requirements as set out in the *Insurance Regulations, 2001*. General insurers will be required to file the MCT on a compliance basis effective 20...
4. This guideline outlines the capital framework, using a risk-based formula for the minimum capital required, and defines the capital that is available to meet the minimum standard. The MCT determines the minimum capital required and not necessarily the optimum capital required.

## **MCT Supervisory Target**

5. General insurance companies are required, at a minimum, to maintain an MCT ratio of ....%. Companies are encouraged to establish a target capital level that provides a cushion above minimum requirements both to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends and international developments and to provide for risks not explicitly addressed in the calculation of policy liabilities or the MCT.
6. Such risks include systems, data, strategic, management, fraud, legal and other operational risks and business risks. An adequate target capital level provides additional capacity to absorb unexpected losses beyond those covered by the minimum MCT and to address capital needs through ongoing market access.
7. Each company is expected to establish a target capital level and maintain ongoing capital at no less than the supervisory minimum of ....% MCT.
8. Insurers are required to inform the Commission immediately if they anticipate falling below the supervisory target capital level and to lay out their plans, for the Commission's approval, to return to their target level.

## **Overview**

### **Risk-Based Capital Adequacy Framework**

9. The risk-based capital adequacy framework assesses the riskiness of assets and policy liabilities, by applying varying factors. General insurance companies are required to meet a *capital available to capital required* test. The definition of capital is described below.

### **Capital Available**

#### **Definition of Capital**

10. The three primary considerations for defining capital of a general insurance company for the purposes of measuring capital adequacy are:

- (a) its permanence;
- (b) its being free of any obligations to make payments from earnings;  
and
- (c) its subordinated legal position to the rights of policyholders and other creditors of the institution.

The integrity of capital elements is paramount to the protection of policyholders. These considerations will be taken into account in the overall assessment of a general insurer's financial condition.

11. Capital available includes instruments with residual rights that are subordinated to the rights of the policyholders and which will be outstanding over the medium term. It also includes an amount to reflect changes in the market value of investments.

12. Capital available is restricted to the following subject to the requirements of the Commission:

- (i) Equity -
  - (a) share capital;
  - (b) share premium;
  - (c) retained earnings;
  - (d) investment reserves;

- (e) capital reserves; and
- (f) currency translation reserves
- (ii) Subordinated indebtedness and irredeemable preference shares;
- (iii) Capital Available of Regulated Financial Institution Subsidiaries.

### **Deductions/Adjustments**

13. The following amounts are deducted from the total of Capital Available:
- (a) investments in associates including regulated financial institution subsidiaries;
  - (b) investments in a ssociates and partnerships;
  - (c) deferred policy acquisition expenses that are not eligible for either the 0% capital factor or the 35% capital factor;
  - (d) receivables from unregistered insurers or Not Investment Grade re-insurers to the extent that they are not covered by deposits held as security;
  - (e) unearned premium, unpaid claims and adjustment expenses recoverable from unregistered insurers or Not Investment Grade re-insurers to the extent that they are not covered by deposits held as security;
  - (f) future income tax debits;
  - (g) goodwill and other intangible assets;
  - (h) other assets in excess of 1% of total assets.
14. No asset factor is applied to items that are deducted from capital available.

### **Capital Required**

15. The minimum capital requirements for general insurance companies are the sum of:
- (a) capital for assets;

- (b) margins for unearned premiums, premium deficiencies and unpaid claims (policy liabilities);
- (c) Total Capital Required of Regulated Financial Institution Subsidiaries;
- (d) catastrophes reserves and additional policy provisions; and
- (e) margin for foreign exchange risk.

### **Minimum Requirements**

16. General insurance companies will be expected to maintain available capital equal to at least the minimum capital requirement.

### **Description of Asset Risks**

17. The capital required for assets covers the potential losses resulting from asset default and the related loss of income, and the loss of market value of equities and the related reduction in income. To determine the risk-based capital requirement for assets, general insurance companies must apply a factor to the balance sheet value of each asset (except assets deducted from Capital Available). The total of these amounts represents the capital required for asset risks.

### **Counterparty Risk**

18. This relates to asset exposures.

19. The four rating categories used for assigning capital factors to assets, or where appropriate, collateral and guarantees, are:

#### **Government Grade**

Government obligations include securities issued by, loans made to, or securities or loans guaranteed by, and accounts receivable from:

- (a) the government of Jamaica;
- (b) the government of a country rated A (or equivalent), or higher from an internationally recognized rating agency.

**Bank Grade**

Bank obligations include securities issued by, loans made to, or securities or loans guaranteed by, and accounts receivable from any deposit taking institution licensed under The Financial Institutions Act or The Building Societies Act.

**Investment Grade**

A security is treated as Investment Grade if its rating (excluding securities that are included in the Government or Bank Grades) meets or exceeds a Grade of BBB (or equivalent). If a rating is not available, or where the rating of the security, or guarantor, is less than BBB (or equivalent), it will be assigned a Not-Investment Grade Factor.

**Not-Investment Grade**

Includes any item not included in Government Grade, Bank Grade or Investment Grade. In the case of an asset exposure backed by a guarantee, the long-term issuer credit rating or, in the case of a Government the long-term sovereign risk rating, of the guarantor is used to determine the risk category. In all cases when a credit rating is not available, the relevant Not-Investment Grade factor is applied.

20. Companies must use the latest rating assigned to the instrument by an internationally recognized widely followed (or approved by the Commission) credit rating agency. A company must consistently follow the ratings of one agency. Only where the agency does not rate a particular instrument, the rating of another internationally recognized agency may be used.

**Assets Factors**

21. Capital factors for asset items are as follows:

**0 % Factor**

- (a) cash;
- (b) obligations of the government of Jamaica;
- (c) the government of a country rated A (or equivalent), or higher from an internationally recognized rating agency
- (d) obligations backed by a Government Grade guarantor;

- (e) income tax receivables;
- (f) deferred policy acquisition expenses: premium taxes; and
- (g) installment premiums (not yet due)

**0.15 % Factor**

- (a) re-purchase agreements backed by Government of Jamaica securities;

**0.25 % Factor**

- (a) obligations of a Jamaican commercial bank.

**0.5 % Factor**

- (a) unearned premiums recoverable from registered insurers or Investment Grade re-insurers;
- (b) receivables from registered insurers or Investment Grade re-insurers;

**2 % Factor**

- (a) term deposits, bonds, and debentures (including commercial paper), rated Investment Grade, that mature or are redeemable in less than one year;
- (b) investment income due and accrued;
- (c) unpaid claims and adjustment expenses recoverable from registered insurers or Investment Grade re-insurers;

**4 % Factor**

- (a) term deposits, bonds, and debentures (including commercial paper) rated Investment Grade, that mature or are redeemable in one year or more;
- (b) residential mortgages (see paragraph 30).

**8% Factor**

- (a) term deposits, bonds, and debentures (including commercial paper), rated Not-Investment Grade, that mature or are redeemable in less than one year;
- (b) accounts receivable outstanding less than 90 days from agents brokers, associates and policyholders, including installment premiums and other receivables;
- (c) real estate for an insurer's own use (occupied by Insurer);
- (d) commercial mortgages (see paragraph 31).

**10% Factor**

- (a) preference shares.

**15% Factor**

- (a) term deposits bonds and debentures (including commercial paper) rated Not-Investment Grade, that mature or are redeemable in one year or more;
- (b) accounts receivable, outstanding 90 days or more, from agents, brokers, associates and policyholders, including installment premiums and other receivables;
- (c) ordinary shares;
- (d) Investments in collective investment schemes, unit trusts, mutual funds or other similar assets.
- (e) investments in real estate (not for an insurer's own use);
- (f) other recoverables (mainly salvage and subrogation) on unpaid claims;
- (g) other loans; and
- (h) other investments (includes all investments not specifically identified in this guideline).

**35% Factor**

- (a) Deferred policy acquisition expenses: Commissions, net of an adjustment for Unearned Commissions (note that 35% is applied to this calculated net value and not to the book value). If the net value is negative, report zero (i.e., any excess adjustment for Unearned Commission cannot be recognized as capital);
- (b) Other Assets up to a limit of 1% of Total Assets. Any excess over the limit is included in the amount deducted from Capital Available.

**General**

- (a) Where information is not available to determine the grade of the counterparty, the counterparty is deemed to be Not-Investment Grade.
- (b) Where information is not available to determine the redemption/maturity of an asset, general insurers must use the category with the highest capital factor for that asset (i.e., use the "deposits, bonds and debentures, expiring or redeemable in more than one year" category where that information is not available for a particular asset).
- (c) The total of all items should equal to the total assets reported on the balance sheet.

**Capital Required for Investments in Subsidiaries, Associates, Partnerships****Regulated Financial Institution Subsidiaries**

22. General insurers that hold a controlling interest in a regulated financial institution are required to include in their capital required an amount equal to the capital required for that subsidiary calculated using the applicable sectoral test of the Jamaican parent insurer's jurisdiction.

23. The parent general insurer is required to include in capital available the capital available in its regulated financial institution subsidiaries calculated using the applicable sectoral test of the Jamaican parent general insurer's jurisdiction, and deduct from capital available the balance sheet value of its investments in these subsidiaries.

24. Where a general parent insurer owns less than 100% of the regulated financial institution subsidiary, it includes its *pro rata* share of the subsidiary's capital available and capital required in the calculation.

### **Other Subsidiaries and Associates**

25. For other subsidiaries and associates, the parent is required to hold capital for that subsidiary or a ssociate equivalent to the book value of the investment in that subsidiary or associate.

### **Application**

26. The same treatment applies to subsidiaries and associates of the parent insurer, whether held directly or indirectly.

### **Partnerships**

27. Investments in partnerships are treated as direct investments by the general insurer. The approach is to "look through" the partnership (i.e., apply the same treatment used for subsidiaries and a ssoicates).

### **Reinsurance Recoverables**

28. The risk of default for recoverables from re-insurers arises from both credit and actuarial risk. Credit risk relates to the risk that the re-insurer will fail to pay the insurer what it is owed. Actuarial risk relates to the risk associated with assessing the amount of the required provision.

29. The capital factor applied to recoverables from registered re-insurers is treated as a combined weight under the MCT reflecting both the credit risk and the risk of variability or insufficiency of Unpaid Claims and Unearned Premiums. A 2% capital factor is applied to Unpaid Claims recoverable from registered insurers and Investment Grade re-insurers. 0.5% is applied to Unearned Premiums recoverable from registered insurers and Investment Grade re-insurers. Unpaid Claims and Unearned Premiums from unregistered insurers and Not-Investment Grade re-insurers are deducted from Capital Available.

### **Mortgages**

#### **Residential**

30. 4% for first mortgages on residential dwellings on the outstanding balance, excluding accrued interest, less insured balances and write-downs. It also applies to second mortgages for the purpose of acquiring or improving the

residential dwelling and the company holds the first mortgage on the dwelling to which the second mortgage applies. If the mortgage does not meet these criteria, the factor for commercial mortgages will apply.

### **Commercial**

31. 8% for commercial mortgages and for mortgages secured by undeveloped land (i.e., construction financing), other than land used for agriculture or the production of minerals and a commercial investment property held for leasing.

### **Capital Treatment for Collateral and Guarantees**

#### **Collateral**

32. This note applies to assets.

33. Recognition of collateral in reducing the capital required for assets is limited to cash or securities meeting the Government Grade, Bank Grade or Investment Grade criteria (paragraph 19). Where a rating is not available for the asset or counterparty where applicable, no reduction in capital required is permitted.

34. Any collateral must be held throughout the period for which the asset is held or for which the exposure exists. Only that portion of an obligation that is covered by eligible collateral will be assigned the weight given to the collateral.

#### **Guarantees**

36. Investments (principal and interest) that have been explicitly, irrevocably and unconditionally guaranteed by a guarantor whose long-term issuer credit rating or, in the case of a government, the long-term sovereign credit rating, satisfies the Government Grade, Bank Grade or Investment Grade rating criteria, may attract the capital factor allocated to a direct claim on the guarantor where the effect is to reduce the risk. Guarantees provided by a parent or an associate are not eligible for this treatment on the basis that guarantees within a corporate group are not considered to be a substitute for capital.

37. Where a rating is not available for the investment or guarantor where applicable, no reduction in capital required is permitted.

38. To be eligible, guarantees should cover the full term of the instrument and be legally enforceable.

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39. Where the recovery of losses on a loan, financial lease agreement, security is partially guaranteed, only the part that is guaranteed is to be weighted according to the capital factor of the guarantor (see examples below).

### Example

To record a \$100,000 Investment Grade bond due in 10 years that has a government guarantee of 70 % and a commercial bank guarantee of 20%, the insurer would report a book value of \$70,000 ( $\$100,000 \times 70\%$ ) on the Government Grade line, a book value of \$20,000 ( $\$100,000 \times 20\%$ ) on the Bank Grade line and a book value of \$10,000 ( $\$100,000 - \$70,000 - \$20,000$ ) on the Investment Grade line under Term Deposits, Bonds and Debentures, Expiring or redeemable in more than one year. The Capital Required on the Government Grade line is \$0 ( $\$70,000 \times 0.0\%$ ). The Capital Required on the Bank Grade is \$50 ( $\$20,000 \times 0.25\%$ ) and the Capital Required on the Investment Grade line is \$400 ( $\$10,000 \times 4.0\%$ ) for a total capital requirement of \$450. An example of the calculation, assuming no other balance sheet items, is provided in the chart below.

	<b>Factor %</b>	<b>Book Value</b>	<b>Capital Required</b>
Investments:			
Term Deposits, bonds, and Debentures			
Expiring or redeemable in more than one year:			
Government Grade	0.0%	\$70,000	\$0
Bank Grade	0.25%	\$20,000	\$50
Investment Grade	4.0%	\$10,000	\$400
Not Investment Grade	15.0%		
<b>Total:</b>		<b>\$100,000</b>	<b>\$450</b>

40: Details of the calculations to reflect collateral and guarantees must be included in the notes to the MCT schedules.

**Capital Required for Policy Liabilities****Description of Risks for Policy Liabilities**

41. This risk component reflects the insurer's risk profile by individual classes of insurance and results in specific margin requirements on policy liabilities. For the MCT, the risk associated with policy liabilities is divided into four parts:

- (a) variation in claims provisions (Unpaid Claims);
- (b) possible inadequacy of provisions for Unearned Premiums;
- (c) possible inadequacy of provisions for Premium Deficiencies; and
- (d) occurrence of catastrophes (Wind Storm and Earthquake).

**Margins for Unearned Premiums, Premium Deficiencies and Unpaid Claims**

42. Given the uncertainty that balance sheet provisions will be sufficient to cover the anticipated liabilities, margins are added to cover the potential shortfall. The margins establish a balance between the recognition of varying risks associated with different classes of insurance and the administrative necessity to minimize the test's complexity.

43. From a regulatory perspective, these margins are included to take into account possible abnormal negative variations in the amounts calculated by actuaries, given the fact that the margins added by actuaries in their valuation are primarily intended to cover expected variations.

44. Margins on Unpaid Claims and Unearned Premiums are applied to the net amount at risk (i.e. net of reinsurance and Salvage and Subrogation) by class of insurance. The Unearned Premiums margin is applied to the greater of the net Unearned Premiums or 50% of the net written premiums in the last 12 months. The margins are as follows:

<b>Class of Insurance</b>	<b>Margin on Unearned Premiums</b>	<b>Margin on Unpaid Claims</b>
Property (personal and commercial)	10%	7.5%
Accident and Sickness	See paragraph 47	See paragraph 48

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<b>Class of Insurance</b>	<b>Margin on Unearned Premiums</b>	<b>Margin on Unpaid Claims</b>
Liability	10%	20%
Motor vehicle	10%	12.5%
Marine, aviation and transit	10%	20%
Pecuniary Loss	10%	20%
All other	10%	20%

45. A margin of 10% applies to Premium Deficiencies.
46. Accident and Sickness requirements determined by actuaries in their valuations are primarily intended to cover expected variations in these requirements based on assumptions about mortality and morbidity. Margins on Unearned Premium and Unpaid Claims for Accident and Sickness Insurance are included in the MCT to take into account possible abnormal negative variations in actual requirements.
47. The Unearned Premium margin is calculated by applying a 15% factor to annual earned premiums.
48. The component requirement is 15% of the provision for incurred but unpaid claims relating to prior years. The use of prior years avoids a double component requirement for incurred but unpaid claims arising from coverage purchases by premiums paid in the current year.

### **Catastrophes - Hurricanes and Earthquake**

49. For this provision, insurers have the option of using the default or the model-generated amounts. An insurer may move from using the default calculation to the model-generated computation but may not go back to using the default method without the prior approval of the Commission.
50. Companies that choose to use computer models are expected to demonstrate an understanding of the model employed in estimating the company's Probable Maximum Loss<sup>1</sup> (PML) including an understanding of the type of data and assumptions used in the model as well as the manner in which data and assumptions are incorporated. Companies need to have a sound

<sup>1</sup> PML is the threshold dollar value of losses beyond which losses caused by a major catastrophe are unlikely.

understanding of the assumptions included in their PML estimates and the sensitivity of the estimates to changes in assumptions.

51. Computer models developed externally or internally, must meet the Commission's criteria.

**DEFAULT METHOD:**

52. Insurers issuing policies for the coverage of hurricanes or earthquakes are required to record a provision of 30% of net premium earned (i.e. net of reinsurance) on policies that provide catastrophe protection. A breakdown of premiums by class of insurance and catastrophe protection must be included in the Notes to the MCT Schedule.

**MODEL-GENERATED METHOD:**

53. Provision = (Greater of (PML<sub>500</sub>, Hurricane - Reinsurance Collectable, Hurricane) and (PML<sub>500</sub>, Earthquake - Reinsurance Collectable, Earthquake)) - Retention

54. Provision must be greater than or equal to zero.

55. PML<sub>500</sub> is the Gross Probable Maximum Loss from wind storm or earthquake estimated using a 500 year event return period<sup>2</sup> at a 75 per cent damageability confidence level for deterministic models or a 500 year loss return period at a 50 percent damageability confidence level for probabilistic models.

56. Damageability confidence level is the probability that the actual damage ratio will be less than or equal to the damage ratio calculated by the model. For example, a 98% damageability confidence level indicates that there is a 2% probability that the actual damage to the building(s) will exceed the estimated damage given the catastrophe has already occurred.

57. Companies using deterministic computer models to estimate PMLs will be expected to demonstrate that they have tested at several different scenarios for event return periods. They will also be expected to demonstrate that they

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<sup>2</sup> Event return period corresponds to the reciprocal of the probability of a catastrophe occurring. For example, an event period of 500 years equates to a 0.2 percent (1/500) probability of a particular event occurring in a given year. Lower magnitude events occur more frequently than higher magnitude events and generally are expected to produce lower damage figures. A higher event return period translates into a lower probability of occurrence, but a higher potential dollar value of loss.

have used different wind storm paths or earthquake locations with a view to selecting an appropriately conservative scenario vis-à-vis their portfolio mix.

58. Gross Probable Maximum Loss is PML *after* policyholders' deductibles but *before* reinsurance protection.

59. Reinsurance Collectable are amounts that would be collectable under the company's current documented reinsurance program if it were to sustain wind storm or earthquake losses that match the 500 year event return standard.

60. Retention is the amount the company is currently using to manage its windstorm and earthquake exposure subject to a maximum of 5% of Capital and Surplus.

61. Capital and Surplus is the total capital, surplus and reserves reported on the company's latest annual filings

### **Capital Required for Foreign Exchange Risks**

62. Foreign Exchange Risk is the risk associated with asset depreciation or liability appreciation arising from changes in exchange rates.

63. The component for foreign exchange risk specifically allows for the depreciation of assets denominated in foreign currency when that currency declines in value against the Jamaican dollar, or, for the appreciation of liabilities denominated in foreign currency when that currency increases in value against the Jamaican dollar. If the assets and the liabilities denominated in a foreign currency are equal, then the foreign exchange risk is eliminated and no additional capital will be required.

64. To calculate the foreign exchange risk component, a factor of 5% is applied to the net assets or liabilities denominated in foreign currency (converted to Jamaican dollars). The resulting values are summed to arrive at the total foreign exchange risk component. Companies may take credit (reduce liabilities) for business ceded to re-insurers provided that reinsurance claims are payable in the same currency as the liability.

65. The net assets or liabilities in Jamaican dollars are the absolute value of the assets minus the liabilities multiplied by the exchange rate for each currency.

66. The exchange rate used for each currency should be the risk weighted average spot selling rate as at the effective date of the MCT calculation.

## MINIMUM CAPITAL TEST (MCT) RATIO CALCULATIONS

### SUMMARY PAGE

<b>Capital</b>		<b>(J\$'000)</b>
<b>Capital Required:</b>		
Assets	1	-
Policy Liabilities	2	-
Regulated Financial Institution Subsidiaries	3	-
Catastrophe	4	-
Foreign Exchange Risk	5	-
Other (specify)	6	-
<b>Total Capital Required</b> <span style="float: right;">sum of 1 to 5</span>	A	-
<b>Total Capital Available</b>	B	-
<b>MCT Ratio</b> <span style="float: right;">(B/A)x100</span>		<b>N/A</b>

## CAPITAL AVAILABLE

Capital Elements		Capital Available (J\$'000)
<b>Equity:</b>		
Share Capital		-
Share Premium		-
Retained Earnings		-
Investment Reserves		-
Capital Reserves		-
Currency Translation Reserves		-
<b>Subtotal Equities</b>	<b>A</b>	-

<b>Subordinated Indebtedness &amp; Redeemable Preferred Shares</b>	<b>B</b>	-
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<b>Capital Available of Regulated Financial Institution Subsidiaries</b>	<b>C</b>	-
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Deduction from Capital Elements		Capital Available (J\$'000)
<b>Less: Assets with a Capital Requirement of 100%</b>		
Investments in Associates Including Regulated Financial Institution Subsidiaries		-
Investments in associates and partnerships		-
Receivables from Unregistered Insurers or Not-Investment Grade Re-insurers		-
Recoverables from Unregistered Insurers or Not-Investment Grade Re-insurers		-
Deferred Policy Acquisition Expenses not eligible for 0% or 35% capital factors		-
Future Income Tax Debits		-
Goodwill and Other Intangible Assets		-
Investments in Assets above Statutory Limits		-
Other Assets in Excess of 1% of Total Assets		-
Other (specify)		-
<b>Total Assets to be deducted</b>	<b>D</b>	-
<b>Total Capital Available</b>	<b>A+B+C-D</b>	-

**CAPITAL REQUIRED FOR ASSETS**

ASSETS	Book Value (J\$'000) A	Factor (%) B	Capital Required A x B (J\$'000)
Cash	-	0.00%	
Investment Income Due and Accrued	-	2.00%	-
Investments:			
Term Deposits, Bonds and Debentures:			
- Expiring or redeemable in one year or less:			
Government Grade	-	0.00%	
Bank Grade	-	0.25%	-
Investment Grade	-	2.00%	-
Not-Investment Grade	-	8.00%	-
- Expiring or redeemable in more than one year:			
Government Grade	-	0.00%	
Bank Grade	-	0.25%	-
Investment Grade		4.00%	-
Not-Investment Grade	-	15.00%	-
Repurchase Agreements			
Backed by Government of Jamaica Securities	-	0.15%	-
Loans:			
Government Grade	-	0.00%	
Bank Grade	-	0.25%	-
Residential Mortgages	-	4.00%	
Commercial Mortgages	-	8.00%	
Other	-	15.00%	
Preferred Shares	-	10.00%	-
Common Shares	-	15.00%	-
Investments in CIS, Unit Trusts, Mutual Funds or similar assets	-	15.00%	-
Real Estate for Insurer's own use	-	8.00%	-
Investment in Real Estate (other than own use)	-	15.00%	-
Investment in Associates, Partnerships:			
Regulated Financial Institutions	-	Variable	
Other	-	Guideline	
Investments in Assets above Statutory Limits	-	Guideline	
Other Investments	-	15.00%	-
Receivables:			
Government Grade	-	0.00%	
Income Tax	-	0.00%	
Registered Insurers or Investment Grade Reinsurers	-	0.50%	-
Unregistered Insurers or Not-Investment Grade Reinsurers	-	Guideline	
Agents, Brokers, Policyholders, Associates, Partnerships and Other Receivables:			
- Instalment Premiums (not yet due)	-	0.00%	
- Outstanding less than 90 days	-	8.00%	-
- Outstanding 90 days or more	-	15.00%	-
Recoverables:			
- Registered Insurers or Investment Grade Reinsurers			
- Unearned Premiums	-	0.50%	-
- Unpaid Claims	-	2.00%	-
- Unregistered Insurers or Not-Investment Grade Reinsurers		Guideline	
Other Recoverables on Unpaid Claims	-	15.00%	
Deferred Policy Acquisition Expenses:			
Premium Taxes	-	0.00%	
Commissions	-	35.00%	-
Other	-	Guideline	
Future Income Taxes:	-	Guideline	
Other Assets:			
Goodwill and Other Intangibles	-	Guideline	
Other up to 1% of total assets	-	35.00%	-
Other in excess of 1% of total assets	-	Guideline	
<b>TOTAL</b>	-		-

**CAPITAL REQUIRED FOR POLICY LIABILITIES**

<b>Margin Required for Unearned Premiums</b>			
<b>Class of Insurance</b>	<b>Net Unearned Premiums A</b>	<b>Factors B</b>	<b>Margin Required (A x B)</b>
Personal Property & Commercial Property	-	10%	-
Motor Vehicles	-	10%	-
Liability	-	10%	-
Pecuniary Loss	-	10%	-
Marine, Aviation and Transport	-	10%	-
Other	-	10%	-
<b>Total</b>	<b>D</b>		-

<b>Class of Insurance</b>	<b>Net Written Premiums A</b>	<b>Factors B</b>	<b>Margin Required (50%xAxB)</b>
Personal Property & Commercial Property	-	10%	-
Motor Vehicles	-	10%	-
Liability	-	10%	-
Pecuniary Loss	-	10%	-
Marine, Aviation and Transport	-	10%	-
Other	-	10%	-
<b>Total</b>	<b>E</b>		-
<b>Total Margin Required for Unearned Premiums</b>	<b>F</b>	<b>MAX(D, E)</b>	-

<b>Margin Required for Premium Deficiencies</b>			
<b>Class of Insurance</b>	<b>Margin on Premium Deficiencies A</b>	<b>Factors B</b>	<b>Margin Required (A x B)</b>
Personal Property & Commercial Property	-	10%	-
Motor Vehicles	-	10%	-
Liability	-	10%	-
Pecuniary Loss	-	10%	-
Marine, Aviation and Transport	-	10%	-
Accident and Sickness			
<b>Margin Required for Premium Deficiencies</b>	<b>G</b>		-

<b>Margin Required for Unpaid Claims and Adjustment Expenses</b>			
<b>Class of Insurance</b>	<b>Margin on Unpaid Claims and Adjustment Expenses A</b>	<b>Factors B</b>	<b>Margin Required (A x B)</b>
Personal Property & Commercial Property	-	7.5%	-
Motor Vehicles	-	12.5%	-
Liability	-	20%	-
Pecuniary Loss	-	20%	-
Marine, Aviation and Transport	-	20%	-
Accident and Sickness			
<b>Margin Required for Unpaid Claims and Adjustment Expenses</b>	<b>H</b>		-

<b>Margin Required for Accident &amp; Sickness</b>			
<b>Capital Required for Accident and Sickness</b>	<b>Net Amount at Risk A</b>	<b>Factors B</b>	<b>Margin Required (A x B)</b>
Unearned Premium Margin	-	15%	-
Unpaid Claims Margin	-	15%	-
<b>Total Capital Requirement for Accident and Sickness</b>	<b>I</b>		-

<b>Total Capital Required for Policy Liabilities</b>	<b>J</b>	<b>F+G+H+I</b>	-
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## CAPITAL REQUIRED FOR FOREIGN EXCHANGE RISK

Currency	Assets denominated in Currency (\$'000) A	Liabilities denominated in Currency (\$'000) B	Exchange Rate used for conversion to Jamaican dollars C	Net Assets or Liabilities in Jamaican Dollars (A-B)xC (J\$'000) (absolute value) D	Factor E	Capital Required (DxE) F
United States Dollars				-	0.050	-
Pounds Sterling				-	0.050	-
Canadian Dollars				-	0.050	-
<b>Others (List below):</b>						
				-	0.050	-
				-	0.050	-
				-	0.050	-
				-	0.050	-
				-	0.050	-
				-	0.050	-
<b>Total Capital Required for Foreign Exchange Risk</b>				-		-

## NOTES TO MINIMUM CAPITAL TEST SCHEDULES

Schedule	Notes