



BULLETIN:

**MINIMUM CAPITAL TEST:
DEFINITION OF
REDEEMABLE PREFERENCE SHARES**

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MINIMUM CAPITAL TEST: DEFINITION OF REDEEMABLE PREFERENCE SHARES

1.0. BACKGROUND

The three primary considerations for defining capital of a general insurance company for the purposes of measuring capital adequacy are given below as the integrity of the capital elements is paramount to the protection of policyholders:

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

The Minimum Capital Test ("MCT") requires that redeemable preference shares be deducted from Capital Available.

The purpose of this bulletin is to specify, for the purposes of calculating the MCT, the criteria to be used by general insurance companies to determine whether a class of preference shares should be included in Capital Available or considered to be "redeemable".

2.0. CRITERIA

Preference shares that fail to meet the following conditions shall be classified as redeemable and therefore must be deducted from Capital Available.

Subordination

- 2.1 The preference shares must be subordinated to the company policyholders and unsecured creditors.

Permanence

- 2.2 The preference shares shall not have the following features:
 - 2.2.1 Retraction or redemption at the initiative of the holder;
 - 2.2.2 Obligation of the issuer to redeem the shares;
 - 2.2.3 Redemption within 5 years of issuance.

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- 2.3 Any conversion of the preference shares, other than to ordinary shares of the issuer, or redemption is subject to the approval of the Financial Services Commission and
 - 2.3.1 Redemption can only be for cash or the equivalent; and
 - 2.3.2 Conversion privileges cannot be structured to effectively provide either a redemption of or return on the original investment.

Free of Mandatory Fixed Charges

- 2.4 The preference shares shall not have the following features:
 - 2.4.1 Cumulative dividends;
 - 2.4.2 Compensation to preference shareholders other than a dividend;
 - 2.4.3 Sinking or purchase funds.

These criteria are consistent with those prescribed for Tier 1 Preference Shares in Regulation 29 paragraphs (21)-(26) of the Insurance Regulations, 2001.