



2011 Casualty Loss Reserve Seminar


Bermuda Insurance Framework

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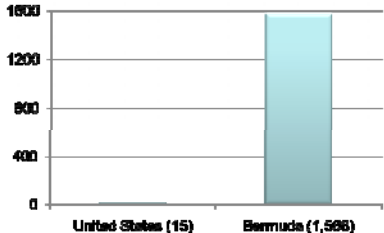
15th September 2011

Agenda

- CAS Actuaries in Bermuda
- A Bermuda Story
- BMA Overview
- Classes of Insurers
- Solvency II Assessment Process Overview
- Preliminary Equivalence Assessment
- What Does This Mean for Bermuda
- Q&A




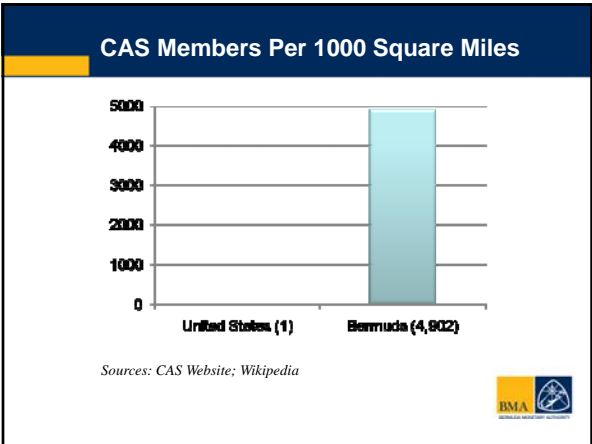
CAS Members Per Million Residents



Country	CAS Members Per Million Residents
United States	15
Bermuda	1,588

Sources: CAS Website; US Census Bureau; World Bank








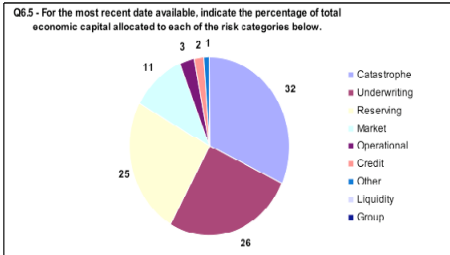
BMA Overview: Market Stats

Based on the most recent data, the Authority had regulatory responsibility for a market that comprises:

- an investment funds sector with an aggregate Net Asset Value of \$184 billion
- a banking sector with total assets of \$22 billion
- the Bermuda Stock Exchange with total market capitalization of over \$319 billion
- as well as over 1,200 companies in Bermuda's insurance market with total assets in excess of \$470 billion, a market that wrote \$124 billion in gross premiums



BMA Overview: Risk Profile



Source: BMA Survey



Classes of Insurers – P/C Captives

- **Class 1** – Single-parent captive insuring the risks of its owners or affiliates of the owners.
- **Class 2** – Single or multi-owner captive insuring the risks of its owners or affiliates of the owner and deriving no more than 20 percent of its net premiums from unrelated risks.
- **Class 3** – Captive insurers underwriting more than 20% and less than 50% unrelated business.




Classes of Insurers – P/C Commercial

- **Class 3A** – Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50M.
- **Class 3B** – Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50M.
- **Class 4** – Insurers and reinsurers capitalized at a minimum of \$100M underwriting direct excess liability and/or property catastrophe reinsurance risk.



Classes of Insurers – Long Term


- **Class A** – Single-parent insuring the risks of its owners or affiliates of the owners.
- **Class B** – Single or multi-owner insurer insuring the risks of its owners or affiliates of the owner and deriving no more than 20 percent of its net premiums from unrelated risks.
- **Class C** – An insurer that has total assets of less than \$250M and is not registrable as a Class A or B.
- **Class D** – An insurer that has total assets of \$250M or more but less than \$500M and is not registrable as a Class A or B.
- **Class E** – An insurer that has total assets of more than \$500M and is not registrable as a Class A or B.



Classes of Insurers – Count

Licensed insurance entities as of April 2011

- Class 1 – 250
- Class 2 – 272
- Class 3 – 277
- Class 3A – 123
- Class 3B – 15
- Class 4 - 30
- Long Term (Class A/B/C/D/E) – 71
- And many special purpose insurers



Classes of Insurers – Class 4

Most of you will be familiar with our Class 4 companies:

•ACE Bermuda	•Chubb Atlantic	•Montpelier Re
•ACE Tempest Re	•Davinci Re	•Partner Re
•AWAC	•Everest Re	•Platinum Underwriters
•Amlin Bermuda	•Endurance Specialty	•Starr Insurance
•Arch Re	•Flagstone Re	•Renaissance Re
•Argo Re	•Hannover Re	•Torus Insurance
•Ariel Re	•Hiscox Insurance	•Validus Re
•Aspen Insurance	•Ironshore Insurance	•Sirius
•Axis Specialty	•Lancashire Insurance	•XL Insurance
•Catlin Insurance	•Alterra	•XL Re




BMA Position – Regulatory Equivalence

Seeking alignment with international regulatory standards, while remaining focused on applying appropriately for Bermuda's market

- Risk-based approach, proportionality principle
- Practical application of international standards – broad equivalence, no line-by-line duplication

Bermuda is well-positioned for equivalence assessment based on:

- Framework developments achieved to date
- Framework changes map closely to Solvency II



Solvency II Assessment Process Overview

Phase 1: self-assessment

Completed and submitted 200+ page questionnaire to EIOPA in January 2011

Follow up questions and responses


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Phase 2: on-site assessment

EIOPA assessors were in Bermuda 1st week of June

Presentations, discussions with supervisors, data analysis


EIOPA evaluation and third-country equivalence recommendations to EU Commission released in August 2011




Preliminary Assessment Findings

EIOPA
Assessment

- EIOPA has completed off-site and on-site Bermuda assessment – draft report published 17th August
- Bermuda regime for Class 4, 3B, 3A insurers achieves overall alignment with key Solvency II principles, with certain caveats
- Some caveats resulted from decision not to pursue certain framework developments based on: industry feedback, need for more clarity on Solvency II provisions
- Distinction made between captive and commercial sectors with respect to equivalence findings
- Deadline for comments on EIOPA findings 23rd September




Bermuda Alignment with Solvency II Principles		
EIOPA Findings	Principles	
Equivalent	2 8	Professional secrecy, exchange of information Scope of group supervision (i.e. likely to be equivalent upon further development)
Largely equivalent	1 6, 7, 12	Powers & responsibilities of 3 rd country supervisory authorities Solvency assessment – reinsurance (6), all insurers (7), groups (12)
Partly equivalent	3 4 9 10	Taking-up of business System of governance and public disclosure Parent undertakings outside the Community: cooperation & exchange of information between supervisory authorities Group system of governance and public disclosure
Not equivalent	5, 11	Changes in business, management or qualifying holdings (solo, group)



Overview: where we are today

BMA Position

- Positive first step in equivalence process and EIOPA report does not alter BMA general direction/plans - caveats anticipated, proposals to address in development
- Implementation of regime changes remains on track, in consultation with industry



What does this mean for Bermuda?

For Commercial sector – Class 4, 3B, 3A and Long-Term

- Phased roll out of regime changes will continue
- Timetable for work stream implementation generally will not change, e.g. group supervision, BSCR
- Some caveats will be addressed in existing phased roll out plans to market, e.g. public disclosure - from Class 4 to 3B to 3A
- Other caveat areas to be addressed after market consultation

For Captives sector


- Proposed captives regime change will remain focused only on enhanced reporting requirements, i.e. risk return



What does this mean for Bermuda?

Commercial vs. Captive Equivalence

- EIOPA's distinction between commercial and captive sector regarding equivalence is appropriate
- Encouraging result given diversity of Bermuda market - ultimately a workable position, in practical terms, for both sectors
- Opportunity to reiterate US focus of captive sector in on going dialogue between BMA/EU
- Preliminary result - EU Commission will make the final decision



What does this mean for Bermuda?


Additional Time for Regime Enhancements

- EIOPA will revisit the equivalence assessment after finalization of Solvency II Level 2 implementing measures – due mid-2012, after publication of Omnibus II Directive, and subject to 6-month review period
 - Expected timing: Q3 – Q4 2012
- Provides additional time to complete Bermuda regime enhancements through mid-2012
- Particularly positive regarding completing work for Long-Terms, group supervision implementation
- Final decision of equivalence by the European Commission by end-2012



Maintaining a Pragmatic Approach to Equivalence

- Overall, BMA is maintaining a pragmatic approach. Regulatory change for Bermuda is designed to be risk-based, proportionate, effective – workable for Bermuda, while aligned with global standards
- The BMA is focused on turning equivalence theory into practical application. We recognize the pace of change may prove challenging to the market – consultation and industry outreach remains a priority
- Industry support and cooperation through regulatory change process is highly appreciated
- To reiterate: our plans remain on track and we remain focused on doing what's best for Bermuda



Q&A

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