




Antitrust Notice

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Insurance Regulation in Bermuda

2013 CAS Loss Reserving Seminar – 16 September 2013
David Theaker, Deputy Director , Actuarial Services

BMA Mission



To protect and enhance Bermuda's reputation and position as a leading international financial centre, utilising a team of highly skilled professionals acting in the public interest to promote financial stability, safeguard our currency, and provide effective and efficient supervision and regulation.

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Objectives

- **Comply with International Standards**
 - whilst applying Bermuda-appropriate regulations
 - actively engaged with IAIS
- **Equivalence with key jurisdictions**
 - Solvency II for commercial insurers
 - NAIC “qualified jurisdiction” for reinsurance collateral reduction

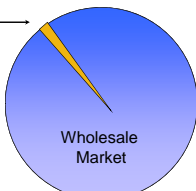
- Understand the nature and position of our market
- Proportionate and pragmatic approach
- Risk-based supervision



Nature of the Bermuda Market

Retail


- Local insurance
- Everyday buyer / Sophisticated seller
- .01% of market



Wholesale Market

Wholesale


- International market
- Reinsurance / Captives
- Sophisticated buyer / Sophisticated seller
- Total Active = 1,209
- Total Capital = \$169B
- 31 x Class 4
 - Total Capital = \$67B
 - 3% companies
 - 40% of capital



Organised into Classes

	Captive Class	Commercial Class
General Business	1, 2, 3,	3A, 3B, 4
Long-Term (Life)	A, B	C, D, E
Special Purpose Insurer	Fully funds its risk exposure through a debt issuance or some other financing	

- All Bermuda insurance groups for which the Authority is the Group Supervisor are subject to supervision – not considered a separate class
- Different regulations / rules apply to different classes
- Reflects differing requirements of / risks to policyholders




Recent developments

- **Focus on Risk Management and Corporate Governance**
 - (IAIS ICP 5, 7, 8, 13, 15, 16)
- **New capital requirements for Commercial Insurers**
 - (ICP 14, 17)
- **Enhanced regulatory reporting**
 - (ICP 9)
- **Introduction of Group Supervision Regime**
 - (ICP 3, 23, 25, 26)

Internally


- Macroprudential surveillance capabilities
 - Proactive assessment of impact of the Common Framework for the Supervision of Internationally Active Insurance Groups (COMFRAME), globally systemically important insurers (G-SIIs) on Bermuda market

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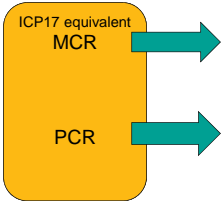
Insurance Code of Conduct

- Issued under Authority's powers in the **Insurance Act 1978** ('the Act')
- Non-compliance may be considered failure of '**sound and prudent**' management
 - and thus triggers action under the Act


- Applies to ALL insurers
 - subject to Proportionality Principle
- Covers
 - Corporate Governance
 - Risk Management
 - Governance mechanism
 - Includes an actuarial function requirement

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Capital Requirements



- **Minimum Margin of Solvency (MMS)**
 - All insurers – varies by class
- **Enhanced Capital Requirement (ECR)**
 - Applies to Commercial Insurers & Groups
 - Standard formula model (BSCR)
 - Or an approved internal capital model
- **Target Capital Level**
 - 120% of ECR
 - Used as an "early warning indicator"

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Capital Requirements – continued

Minimum Margin of Solvency (MMS) = simple ratio based model

Enhanced Capital Requirement (ECR) = based on BSCR or approved internal model

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Bermuda Solvency Capital Requirement (BSCR)

- Introduced in 2008 for Class 4, and rolled out to others
- Fully in force for Class 3A, 3B and 4
- Some changes currently subject to consultation for end-2013
 - Market risks / Credit risks / Long-Term risks
- Phased in for Class C, D & E from end-2013 (50%) to end-2015
- Groups subject to BSCR from end-2013 (50%) to end-2018

- Factor based approach covering main risk types
 - e.g., market / credit / premium / reserve / catastrophe / operational
- Some risks covered by modelling results
 - with enhanced information disclosures
 - e.g., Catastrophe risk / Variable Annuity risks
- Explicit allowance for diversification benefits

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Internal Capital Model option

Standard Tests

- Use
- Documentation
- Governance
- Controls
- Statistical
- Calibration
- Validation

- Models subject to approval
- Guidance Note sets out requirements
- TVaR 99 over 1 year
- Pre-application
 - Three to four months
- Application
 - Six to nine months
 - Assisted by external advisers
- Started considering applications from July 2013


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Valuation

Economic Balance Sheet

- Proposals put forward for consultation in 2012
- Considering implications of recent IASB / FASB accounting standards proposals


- No Bermuda specific GAAP
- Statutory accounting requirements
 - May be supplemented by a 'recognised' GAAP
- General Business/Property & Casualty reserves usually not discounted
- Subject to opinion on 'adequacy' by a loss reserve specialist
 - usually a credentialed actuary
- Long-Term reserves always certified by an actuary
- Actuarial opinion on group reserves from end-2014

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Eligible Capital

- Not all capital is equal
- Introduced three tiers of capital in 2012
- Limits on amount of capital in each tier able to meet MMS / ECR


- e.g. for a Class 4 insurer
 - Tier 1 capital must be at least
 - 80% of MMS
 - 60% of ECR
 - No Tier 3 capital allowed to meet MMS

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CISSA

Commercial Insurer Solvency Self Assessment

- Bermuda's equivalent of an Own Risk and Solvency Assessment (ORSA)
- Introduced in 2010 (phased basis)
- Forms part of Capital and Solvency return
- CISSA applies to all Commercial Insurers
- ... and Groups Group Solvency Self Assessment (GSSA)




- Private document for the Authority
- Company's own report and calibration
 - minimum content of report specified


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Group Supervision

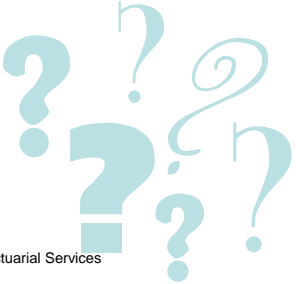
- **The Authority acts as Group Wide Supervisor for a number of groups**
 - participates in supervisory colleges
 - has Memoranda of Understanding (MoU) with 21 organisations (including 7 in the US)
 - Limited powers over holding companies
 - Operate through a 'Designated Insurer' to exercise powers



- **All assets and liabilities of the Group covered**
 - including non-regulated entities
- **Group Statutory Financial Return**
 - Actuarial Opinion on Group Reserves
- **Group Capital & Solvency Return**
 - Group BSCR
 - Group Eligible Capital
 - GSSA

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Questions?



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