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PRESS RELEASE

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BERMUDA MONETARY AUTHORITY LAUNCHES PILOT INTERNAL CAPITAL MODEL ASSESSMENTS FOR (RE)INSURERS

**Pilot programme is a major milestone that supports Bermuda's bid for third-country equivalence
with global regulators**

The Bermuda Monetary Authority today announced it has begun conducting a pilot of its internal capital model (ICM) review process with selected Class 4 firms, the largest commercial (re)insurers in the Bermuda market. The ICM framework will allow (re)insurers to use their own internal capital models, once reviewed and approved by the Authority, to determine the amount of regulatory capital that would be required for such companies. The ICM framework is a key element of the Authority's regulatory change programme, which is designed to prepare the jurisdiction's insurance regulations for third-country equivalence assessments with global regulators, in particular under Europe's Solvency II Directive.

Jeremy Cox, CEO at the Authority, said, "The Authority has reached another important milestone in our Solvency II equivalency roadmap with the ICM pilot assessments. Conducting this pilot is a clear demonstration that we are making significant progress with our planned enhancements to Bermuda's insurance regulations, in line with international best practice. As the time draws nearer for third-country assessments under Europe's Solvency II, we are confident that the changes being made to our regulatory framework will be commensurate with the Directive's requirements."

"The pilot enables the Authority to test its review process, allowing for refinements to be made to the framework as required, and will assist in our resource planning to support the process moving forward," explained Craig Swan, Director, Policy, Research and Risk Assessment, who is leading the internal models initiative.

"The ICM assessment includes evaluating the adequacy of the design, statistical quality and calibration of the models submitted, and, importantly, the governance structure, controls and documentation surrounding them," added Mr. Swan. "It will also be heavily focused on determining the extent to which the models are used effectively and fully integrated into the strategic decisions, underwriting and risk mitigation strategies of the participating firms."

"Once the framework is implemented the Authority will provide approval for a model for regulatory purposes only if it is assured that all relevant minimum standards are met, and that an insurer has established an effective and suitable track record of reliable risk management," said Mr. Cox. "We will be



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applying rigorous scrutiny to the internal models submitted for review, given that application of approved internal models may result in reduced capital requirements for some insurers. We are also continuing to build on our technical resources to conduct the analysis that this initiative will require moving forward, currently adding further experienced resources to our existing in-house Actuarial Services team.”

The Authority formally established the standards and applications process for permitting the use of insurers’ internal capital models in July of last year when it issued guidance notes outlining the various components of the ICM framework. These components include detailed pre-application conditions insurers must meet prior to submitting their models for review; the application review procedures the Authority will follow; and the monitoring and control activities the Authority will undertake once a model has been approved.

The elements of the framework are in line with emerging international best practice and standards for reviewing internal models being set by bodies such as the International Association of Insurance Supervisors. They are also consistent with the provisions of Solvency II.

Mr. Cox added, “Conducting the ICM pilot is the result of a tremendous amount of work being undertaken by the Authority’s team to prepare the jurisdiction to meet the important goal of achieving Solvency II equivalence. I would like to acknowledge Actuarial Services for their efforts in this project, as well as the support we have received from consultants at Oliver Wyman in helping us build further, leading-edge refinements and robustness into the assessment process for our ICM framework.”

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