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PRESS RELEASE

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THE BERMUDA MONETARY AUTHORITY MAKES FURTHER PROGRESS ON REGULATORY FRAMEWORK CHANGES IN PREPARATION FOR SOLVENCY II ASSESSMENT

Latest proposals outline Bermuda-specific ORSA regime and enhanced disclosure requirements for largest Bermuda insurers

The Bermuda Monetary Authority has reached two key milestones in its work plan to achieve regulatory equivalence with Europe's Solvency II Directive. It has issued two Consultation Papers that address further enhancements to its regulatory framework for Bermuda's commercial insurance sector. The two Papers entitled, "Consultation Paper on Commercial Insurer's Solvency Self Assessment" and "Consultation Paper on Disclosure and Transparency", outline the Authority's proposals on establishing a Bermuda-specific ORSA (own risk and solvency assessment) regime and enhancing disclosure requirements for Bermuda's largest (re)insurers respectively.

The Authority has also issued for industry feedback the draft "Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirements) Amendment Order 2010. The Order details the additional disclosure requirements that will come into effect for Class 4 and Class 3 (re)insurers as of 31st December 2010.

Jeremy Cox, CEO of the Authority said, "Achieving regulatory equivalence for our insurance framework with major international markets has been a strategic priority for the Authority for some time now. We have set our sights on obtaining broad equivalence for our commercial insurance framework under Solvency II, and we continue to make significant progress in this regard. Our latest developments cover two key priorities from a global regulatory perspective – the quality of risk and solvency assessments in the market and ensuring firms make appropriate disclosures. Starting consultation on these key elements of our proposed enhanced framework clearly demonstrates the progress we are making towards equivalency."

Commercial Insurer's Solvency Self Assessment

The Authority is proposing to introduce a regime that requires commercial insurers to perform an assessment of their own risk and solvency requirements, which it refers to as a Commercial Insurer's Solvency Self Assessment or CISSA. Under the Insurance Code of Conduct, which came into effect 1st July 2010, all insurers are required to conduct a solvency self-assessment. However, the proposed CISSA, which is comparable to Solvency II's ORSA requirement, has been adapted to the specific needs of the Bermuda commercial insurance market. The CISSA will allow the Authority to obtain a (re)insurer's view of the capital resources required to achieve its business objectives and to assess the company's governance, risk management and controls surrounding this process. The Paper provides guidance on the



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principles to be followed by insurers when performing their self-assessments, as well as guidance on the CISSA filing process.

The CISSA provides an opportunity to align management and regulatory reporting and will be a central tool in the Authority's supervisory review process going forward. It is also consistent with, and will augment, the self-assessment that is required by the Insurance Code of Conduct.

Disclosure and Transparency

With regard to its enhanced disclosure framework, the Authority proposes introducing a number of additional qualitative and quantitative public and regulatory disclosure requirements in a phased implementation of the regime. Having a phased approach takes into consideration the interconnectedness of the Authority's future initiatives, such as group-wide supervision and the revised long-term insurers framework.

Craig Swan, Director, Policy, Research and Risk Assessment said, "The Authority appreciates that international debates on financial regulation are on going and that standards are evolving, particularly in the area of disclosure and transparency. Therefore implementing our disclosures regime in phases will afford us the opportunity to keep step with these evolving standards, while allowing us the time to decide upon the most appropriate application of issues being considered by the international bodies."

Timing and Scope

The changes being made to Bermuda's insurance framework are focused primarily on the commercial sector. They will initially apply to Class 4, Class 3B and Class 3A firms, the sector's largest commercial (re)insurers, in accordance with the Authority's risk-based approach to regulation. With regard to the CISSA regime, the Authority is proposing a trial run for Class 4, Class 3B and Class 3A insurers at year-end 2010, with full implementation set for the 2011 reporting year-end. The Authority intends initially to apply the requirements outlined in the disclosure proposals to Class 4 and Class 3B insurers and insurance groups. It will subsequently extend some of these requirements to Class 3A in accordance with the proportionality principle.

Both Consultation Papers are available on the Authority's website: www.bma.bm.

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