



43 VICTORIA STREET
HAMILTON 12
BERMUDA

PHONE: (441) 295-5278
FAX: (441) 292-7471
EMAIL: enquiries@bma.bm

PRESS RELEASE

For Release: 20th July 2011

BMA PLANS TO EXTEND USE OF INTERNAL CAPITAL MODELS TO CLASS 3A INSURERS

Authority releases two Consultation Papers outlining revised reporting requirements for local insurers- Industry to provide feedback by 31st August 2011

The Bermuda Monetary Authority ('the Authority' or 'BMA') intends to allow Class 3A insurers to use pre-approved internal capital models for solvency reporting purposes.

This would extend existing provisions to determine capital requirements established in 2009 for Class 4 and Class 3B insurers, which will allow the BMA to assess these companies through either a standard capital model via the Bermuda Solvency Capital Requirement (BSCR) or a pre-approved internal capital model.

The planned extension to Class 3A insurers is contained in a piece of draft legislation entitled the Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 ("The 3A Prudential Rules"). The 3A Prudential Rules stipulate that, provided certain conditions are met, Class 3A insurers can apply to use internal capital models in the place of the standard BSCR-Small to Medium-Sized Entities (SME) model. Class 3A insurers would also be required to submit copies of their capital and solvency return before a specified filing date. Class 3A insurers are defined as 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 \$50 million.

Jeremy Cox, the Authority's CEO said "This extension of pre-approved internal capital models to Class 3A insurers is part of the BMA's strategy to apply a proportionate, risk-based reporting regime appropriately throughout the industry. This extension strategy, as well as the Authority's publishing of these draft pieces of legislation for consultation, is a good example of our commitment to ensuring that Bermuda's regulatory framework remains practical for the entire industry," Mr. Cox added. "Having built the framework, we are now ensuring that our team has sufficient resources and the necessary skills to apply a rigorous review of internal capital model applications."

The Authority continues to work towards accepting internal model applications for 2012 and has hired senior actuary, David Theaker, to oversee the process. Mr. Theaker has extensive experience from his years at the UK's Financial Services Authority (FSA). He represented the FSA on various Solvency-II related teams at the European Insurance and Occupational Pensions Authority (EIOPA). He was also extensively involved with building and consulting on Individual Capital Adequacy Standards (ICAS)



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models. To further enhance resources within the Risk Analytics Department's Actuarial Team, additional actuaries will be joining the BMA over the next few months.

Craig Swan, the BMA's Director, Risk Analytics said the Authority used the same rationale for allowing Class 3As to use internal capital models as it had when permitting Class 4s and 3B firms to have this option.

"A standard regulatory capital model, such as the BSCR, is developed and calibrated for the risk characteristics of the 'average' insurer in the market," Mr. Swan said. "Accordingly, a company may feel that its own internal model, being customised, provides a more appropriate measurement of its specific risks for the purposes of determining its regulatory capital requirement. In the event that a Class 3A has an internal model, it is only fair that it also is afforded the opportunity to make application to use that."

A second piece of draft legislation: the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rule 2011 ("the Rule") seeks to amend filing requirements for registered Class 4 and Class 3B insurers and clarifies certain provisions regarding annual regulatory reporting. The Rule also gives the Authority power to revoke its granted approval for an internal capital model if that model is deemed no longer suitable for the purposes of establishing an enhanced capital requirement. In addition, where the BMA has not been appointed group wide supervisor, the Rule makes provision for registered Class 4 and Class 3B insurers to submit quarterly financial returns to the Authority.

The insurance industry and any other interested persons are invited to submit their view on the proposals set out in the Rules. Comments should be sent to the Authority addressed to policy@bma.bm no later than 31st August 2011. Both pieces of draft legislation, including detailed explanatory memorandums, are available on the Authority's website: www.bma.bm.

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Contact:
Pat Phillip-Bassett, Deputy Director
Corporate Governance and Communications
Direct line: 278-0263
Email: pbassett@bma.bm