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PRESS RELEASE

For Release: Monday 15th December 2008

BMA PUBLISHES REPORT FROM INSURER ECONOMIC CAPITAL MODELLING SURVEY

Results show high level of sophistication in catastrophe modelling techniques in Bermuda; Survey supports Authority's plans for gradual adoption of new internal models framework

The Bermuda Monetary Authority today released the report of its first comprehensive survey of economic capital modelling tools and techniques being used by large insurers and reinsurers in the Bermuda market.

The Authority conducted the survey to research and analyse current capital modelling practices within the Bermuda market, specifically among Class 4 insurers. The survey returns were then augmented by discussions with companies. The report presents the survey results, and describes the current status of capital modelling within the Bermuda market.

Commenting on the report, Matthew Elderfield, Chief Executive Officer of the Authority, said: "The survey results show that the Bermuda market as a whole demonstrates a high degree of sophistication in its economic modelling capability, particularly in the modelling of catastrophic risk. However, documentation and governance procedures appear to be under-developed across the Bermuda market, and there is more work to be done in a number of areas as we move into the next phase of adopting models as the basis for regulatory solvency purposes.

"The Authority is using a phased approach to introduce this new framework, taking the results of this survey and recent lessons learned from the use of modelling to develop prudent minimum criteria for the use of internal models that address these weaknesses, while still encouraging innovation in risk management practices."

The proposed internal models framework is being developed to operate parallel to the Bermuda Solvency Capital Requirement (BSCR), a standardised risk-based capital model the Authority implemented earlier this year to determine regulatory capital requirements for Class 4 (re)insurers. The BSCR has been set as a standard model that reflects the average inherent business risk of the Class 4 market. Under the proposed internal models framework if an insurer can demonstrate that its own model better reflects the inherent risk to its business, it may apply to the Authority to use its model to determine regulatory capital.

Mr. Elderfield said that the information about current modelling practices in the Bermuda market derived from the survey provides the Authority with a good platform for establishing appropriate criteria and regulatory requirements for the next phase of development in the internal models initiative.



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“An insurer’s internal model will have to satisfy certain criteria to be approved for determining regulatory capital. Therefore the next phase of our work will involve developing standards, and the application and review process, for assessing and approving internal capital models as the basis for calculating regulatory capital,” Mr. Elderfield explained. “We will base that assessment on criteria such as how well the internal model is integrated into an insurer’s risk management programme; what type of governance processes and controls the company applies to its model; and how appropriate the model is for determining regulatory capital requirements. The intention is to have a pilot model approval process published by the second quarter of 2009.”

The Authority will provide recognition of an internal economic capital model for regulatory purposes only if it is assured that all relevant minimum standards are met and that an adequate track record of reliable risk management information has been established. It intends to publish standards in 2009 concerning the transitional period before full reliance on approved internal models is permitted.

“Establishing an internal models framework is consistent with developments in insurance regulation internationally and in particular the Solvency II Directive, which will set new insurer solvency standards in Europe,” said Mr. Elderfield. “The Authority is developing its solvency framework with a view to achieving mutual recognition for Bermuda under Solvency II, which would mean that Bermuda’s insurance regulations would be deemed broadly equivalent to those established under the Directive. We’ve taken a proactive approach on this issue and remain among the frontrunners of jurisdictions moving towards that goal.”

A copy of the report can be found on the Authority’s website: www.bma.bm

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The Bermuda Monetary Authority (BMA) is an independent statutory authority established under the Bermuda Monetary Authority Act 1969. The BMA has statutory responsibility for the supervision and regulation of financial institutions including insurance companies and insurance intermediaries in Bermuda.

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