



# **BERMUDA MONETARY AUTHORITY**

**CONSULTATION PAPER**

**ON**

**DISCLOSURES AND TRANSPARENCY**

**JUNE 2010 UPDATE**

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## 0. INTRODUCTION

1. This consultation paper outlines the Bermuda Monetary Authority's ("the Authority") proposed approach to public and regulatory transparency disclosures. In this paper, *regulatory disclosures* relate to disclosures that are submitted to the Authority and *are not made public*.

2. This paper does not provide a comprehensive commentary on disclosure requirements, but rather only addresses proposed changes to existing and/or new (incremental) disclosures. Silence regarding an existing requirement means that it will continue in effect.

3. The views of the insurance industry and other interested persons on the proposals set out in this paper are invited. Comments should be sent to the Authority addressed to [policy@bma.bm](mailto:policy@bma.bm) no later than August 31<sup>st</sup> 2010.

## 1. EXECUTIVE SUMMARY

4. The Authority is proposing to continue enhancement of its disclosure and transparency regime (“disclosures regime” or “disclosures framework”) by introducing a number of additional qualitative and quantitative public and regulatory disclosure requirements. Initially, the proposals would apply only to Class 4, Class 3B insurers<sup>1</sup> and insurance groups<sup>2</sup> because of their more complex risk profile. The Authority will also extend some of these requirements to Class 3A license holders, in accordance with the proportionality principle. It is proposed that testing (i.e. trial run) of certain disclosures for Class 3As will occur for the 2010 year-end.

5. The Authority considers its captive regime to be appropriate and consistent with international regulatory standards. Accordingly, other than the Notification Section 10, no significant changes in this regard are planned; however, the regime will have to be reviewed regularly to keep pace with evolving international standards. The Authority also plans to review regulatory reporting for segregated accounts companies. A consultation paper is due to be published in Q4 2010.

6. This paper is silent with respect to Long-term license holders. The Authority plans to publish a consultation paper on revisions to the Long-term regime in the third quarter of 2010, which will broadly follow the approach outlined within this document.

7. The mission and vision of the Authority embraces protecting and enhancing “Bermuda’s reputation and position as a leading international financial centre”.<sup>3</sup> Accordingly, the Authority is committed to meeting international regulatory standards and ensuring that regulation is appropriate for the Bermuda market.

8. A key objective of insurance regulation, arising from the Authority’s overall mission and vision, is to protect both existing and prospective policyholders. This objective is achieved

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<sup>1</sup> In this paper, the term “insurer” also includes “reinsurer” and “insurance” includes “reinsurance”.

<sup>2</sup> The definition of insurance groups is included in the Consultation Paper on Insurance Groups Regulatory Framework. [http://www.bma.bm/uploaded/473-100205\\_Consultation\\_Paper\\_on\\_Insurance\\_Groups\\_Regulatory\\_Framework.pdf](http://www.bma.bm/uploaded/473-100205_Consultation_Paper_on_Insurance_Groups_Regulatory_Framework.pdf)

<sup>3</sup> <http://www.bma.bm/about-us/mission-vision.html>.

through ensuring that insurers are both solvent and have sufficient liquidity to meet their obligations, and policyholders have sufficient information to make informed choices. It also involves ensuring that insurers are appropriately managing their risks (or threats to their solvency and liquidity positions).

9. Both public and regulatory disclosures play an important role in facilitating the accomplishment of the aforementioned objective by providing both the Authority and stakeholders (who may include the policyholder or others seeking to benefit the policyholder, such as foreign regulators, analysts, rating agencies, etc.) with sufficient information to monitor an insurer's operations and act accordingly. To continue to effectively fulfil its mission and vision and achieve the key insurance regulatory objective, the Authority proposes to continue enhancement of its disclosures regime.

10. International disclosure standards continue to evolve, and the Authority appreciates that it must keep pace. For this reason, and due to the unique characteristics of the Bermuda market, the Authority has proposed a measured approach to the development of its enhanced disclosures regime. It is envisioned that proposals for enhanced disclosures will be adopted over three distinct phases. Phase 1 will cover the reporting periods 2009 to 2011. Phase 2 encompasses the reporting periods 2012 to 2014. Finally, Phase 3 comprises the reporting periods 2015 and beyond. This timeline is contingent on the extent of the pace of international developments, and may slow or accelerate accordingly.

11. The proposed phasing methodology also takes into consideration the interconnectedness of the Authority's future initiatives.

12. The Authority's proposed disclosures framework was outlined in the Consultation Paper on Disclosures and Transparency (the Transparency Paper), the Discussion Paper on the Own Risk and Solvency Assessment Process and the Consultation Paper on Insurance Groups Regulatory Framework. This current paper is largely a reproduction of the Transparency Paper, and also incorporates elements of the other papers, with emphasis on 2010 reporting requirements.

13. The Authority proposes to continue its phased disclosures framework approach, allowing developments to materialise, to facilitate optimal decisions. At each subsequent stage, the Authority will renew consultation to ensure a participative process.

14. This paper has 13 main sections as follows:

- Section 2 describes the context and reasons for the proposals.
- Section 3 highlights the international setting, and developments among the Bermuda market's major trading partners.
- Section 4 demonstrates both the Bermuda market's commitment and the Authority's resolve to collaborate to implement a regime that meets international standards, while befitting the characteristics of Bermuda insurers.
- Sections 5 and 6 outline the guiding principles underpinning the Authority's disclosures framework and the philosophy regarding the roles of public and regulatory disclosures.
- Section 7 describes the Authority's expectations with respect to the responsibility of the board of directors ("board") and senior management.
- Section 8 delineates the phasing proposal. Section 9 provides a synopsis of other related initiatives being developed by the Authority.
- Sections 10 to 13 address notifications, the ability for an insurer to obtain waivers, the implementation timeline of the proposals, an alternative benefit of additional information and the introduction of an electronic filing system that seeks to improve data analysis and benchmarking.

## 2. BACKGROUND

15. Bermuda is a major reinsurance market with Bermuda insurers providing insurance and reinsurance coverage globally.<sup>4</sup> Bermuda insurers have varying risk profiles. The proposals in this paper are intended to initially apply to the higher profile Class 4 and Class 3B insurers and insurance groups.

16. The Authority has indicated its intention to cascade the enhanced solvency and associated disclosures regime to the rest of the commercial market in accordance with the principle of proportionality, which recognises the difference in size, business mix, complexity, and risk profile of insurers<sup>5</sup> An enhanced disclosures regime for Class 3A insurers is proposed for 2011, with a testing (i.e. trial run) of some of the proposals as they relate to Class 3A insurers for the 2010 year-end.

17. The Authority considers the existing captive regime to be appropriate and comparable with international regulatory standards. Other than the Notifications Section 10, no significant changes are planned; however, the regime would have to be reviewed regularly in light of international developments. Should revisions be required, as with other classes, the Authority “is committed to working with the captive market to achieve the right result for Bermuda, and will ensure robust application of the proportionality principles to ensure an appropriate measured response”.<sup>6</sup> The Authority plans to review regulatory disclosures for the segregated accounts companies, and publish a consultation paper on this issue in Q4 2010.

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<sup>4</sup> IMF - “Assessment of Financial Sector Supervision and Regulation in Bermuda”, October 2008, Pg 4.

<sup>5</sup> BMA - “Bermuda’s Insurance Solvency Framework - The Roadmap to Mutual Recognition”, March 2009, Pg 1.

<sup>6</sup> IBID, Pg 3.

18. This paper does not address Long-term insurers. The Authority plans to publish a consultation paper regarding Long-term insurers in the third quarter of 2010. Proposals regarding solvency and associated disclosures will be contained in that paper.

19. The Authority's mission and vision embraces protecting and enhancing "Bermuda's reputation and position as a leading international financial centre"<sup>7</sup>. Towards this end, the Authority is committed to meeting international regulatory standards and ensuring that regulation appropriately addresses the characteristics of the Bermuda market.

20. The Authority views the protection of both existing and prospective policyholders, through appropriate insurance regulation, as a key objective contributing to its overall mission and vision. This objective is achieved through ensuring that insurers are both solvent and have sufficient liquidity to meet their obligations, and policyholders have sufficient information to make informed choices. It also involves ensuring that insurers are appropriately managing their risks (or threats to their solvency and liquidity positions).

21. Being both solvent and liquid implies having sufficient and appropriate capital resources. The appropriate level of capital, or capital adequacy, is largely a function of an insurer's risk profile. Accordingly, regulators assess an insurer's risk profile to determine an insurer's regulatory capital requirement.

22. Many facets contribute to determining a risk profile. These include assessments of the risk characteristics of the business written, invested assets, and contingent obligations. Also involved is determining the level of governance and risk management necessary to sustain prudent operations. Sufficient information is critical to this assessment process. Conversely, the absence of appropriate information can prevent supervisors from understanding and making the appropriate assessment. As insurers innovate or engage in increasingly more complex

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<sup>7</sup> <http://www.bma.bm/about-us/mission-vision.html>.

transactions and structural arrangements, assessments become more difficult. Supervisors must adapt by enhancing disclosures to properly determine risk profiles.

23. Over the past few years, the Authority has been working to enhance its solvency regime with initial focus on Class 4 insurers through the introduction of a risk-based capital model, Bermuda Solvency Capital Requirement (“the BSCR”), and enhanced disclosures to facilitate the understanding of the financial condition of Class 4 insurers. The Class 3B insurers were required to submit similar disclosures for the 2009 year-end as a trial run and the Authority proposes to extend application of the BSCR to Class 3B insurers for the 2010 year-end. Further, the Authority is developing a simplified version of the BSCR (“BSCR-SME”) for Class 3A insurers. A data call is planned between May 2010 and July 2010, with a trial run for the 2010 year-end. The group BSCR for insurance groups is also being implemented for the 2010 year-end; however, the solvency requirements will not come into effect until Q3 2012.

24. The Authority has made significant progress with its risk-based supervisory and solvency framework. Validating the Authority’s continued progress, the 2008 International Monetary Fund (“IMF”) report concluded that Bermuda’s “insurance supervision for the commercial insurers and reinsurers has a high level of observance of the International Association of Insurance Supervisors (“the IAIS”) Insurance Core Principles” (“ICP”).<sup>8</sup> The IAIS is now in the process of reviewing its ICP (in response to the financial crisis, Group of Twenty Finance Ministers and Central Bank Governors (“G20”) and Financial Stability Board mandates) with the view of issuing a revised set of ICPs in 2011.

25. The Authority’s risk-based supervisory and solvency framework (also referred to as the supervisory review process [“SRP”]), consists of an on-site and off-site unit with a collective objective of protecting both existing and prospective policy holders. The SRP process integrates all the information received (including proposed disclosures in this paper) from insurers to effectively assess the capital adequacy and the risk management procedures of insurers (see illustration in Appendix F).

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<sup>8</sup> IMF - “Assessment of Financial Sector Supervision and Regulation in Bermuda”, October 2008, Pg 4.

26. While international debates continue and standards evolve, the Authority wishes to prepare Bermuda for upcoming international developments by proposing a measured approach to disclosure and transparency. This will span over three phases with each phase forming a building block for the next. These three phases will afford the Authority the opportunity to continue enhancing its disclosures regime to keep step with evolving international best practice while allowing the jurisdiction time to deliberate and decide upon the most appropriate application of issues being considered by the international bodies.

27. In the first phase, which began in 2009 and extends through to 2011, the Authority seeks to enhance and standardise regulatory disclosures on risk management, governance, and related financial information to provide a more complete understanding of insurers' risk characteristics or risk profiles. This period will also cover group-wide supervision, Commercial Insurer's Solvency Self Assessment ("CISSA") which is the Authority's version of the IAIS' own risk and solvency assessment ("ORSA"), Catastrophe Risk Return ("Cat Return") and economic balance sheet.

28. Phases 2 (reporting periods 2012 to 2014) and 3 (reporting periods 2015 and beyond) will be primarily dedicated to requiring public disclosures determined through observance of international standards and market consultation at that time. The Authority will also review the sufficiency of regulatory disclosures at Phases 2 and 3 and propose enhancements accordingly.

29. Aside from requiring insurers to make their audited general purpose financial statements public from the 2008 reporting year, the Authority proposes to delay requiring public disclosure due to the unique characteristics of the Bermuda market. The Authority appreciates that the Bermuda market is specialised and sophisticated, being primarily a wholesale market (business-to-business transactions). Such policyholders are generally in a position to gain a substantial amount of information to meet their respective needs prior to entering into contractual arrangements. The characteristics of the information required for business-to-business transactions also differ from that required for retail transactions.

30. The phased approach, while allowing the Authority to monitor international developments, also provides an opportunity to study further possible business to business information gaps (affording stakeholders the ability to engage in dialogue with the Authority). This will assist the Authority in ensuring that appropriate information (or that desired by stakeholders) is required to be made public, avoiding burdening Bermuda insurers with publicly disclosing information that is not useful.

31. Legislation is the mechanism that grants the Authority the power to obtain necessary information to supervise insurers. Additional legislation will be required to effect the proposals in this paper. The Authority proposes to have enabling and secondary legislation (where applicable), enacted on an annual basis over the three phases, to achieve the reporting year(s) implementation objectives (i.e. the disclosures to be submitted) as outlined in section 8 and Appendices A, B and C of this paper. The Authority will consult with the Bermuda market at each phase and on the respective annual legislative drafts.

### **3. INTERNATIONAL DEVELOPMENTS**

32. Growth in the international market over the past ten years coupled with an increase in the complexity of organisational structures and insurance / financial products have highlighted the need for reform within supervisory bodies around the world. These key issues are being debated within the IAIS, European Union (“the EU”), and United States’ (“US”) National Association of Insurance Commissioners (“the NAIC”). Further, the financial crisis that began in 2007/2008 underlines the interconnectedness of markets, forcing supervisors to re-examine their oversight responsibilities. The recommendations arising from these discussions will impact global supervisory and regulatory frameworks.

33. Further, the final report of the G20 Working Group highlighted the need for reform in regulatory frameworks to avoid the emergence of similar financial crises and to mitigate the consequence(s) of any future episodes of financial stress.<sup>9</sup>

34. The report indicated that the type of information that was disclosed by firms prior to the financial crisis was not sufficiently timely or useful to the users of the information. It asserted that information inadequately communicated company exposure, including credit risk and market exposures.<sup>10</sup> These recommendations have impacted the debates at the IAIS, in the EU with the Solvency II framework, and the NAIC's modernisation efforts. The Authority will continue to monitor these developments closely.

35. One of the IAIS' objectives is to promote financial stability by working closely with other financial sector standard setting bodies and international organisations.<sup>11</sup> In October 2003, the IAIS published its ICPs and methodology.<sup>12</sup> ICP 26 relates to transparency and disclosures. The IAIS has also published standards to supplement and assist in interpreting ICP 26<sup>13</sup>, prescribing the minimum level of information to be disclosed. The IAIS continues to be a key driver of regulatory enhancements by highlighting and addressing issues affecting the global insurance industry. The Authority is an active member of the IAIS, and uses IAIS principles as a guide for developing Bermuda's regulatory regime.

36. Substantive change is occurring in the major markets where Bermuda insurers conduct business. In the US, the NAIC adopted the "Reinsurance Regulatory Modernization Framework Proposal Memorandum" in 2008 and is currently beginning work on its solvency modernisation initiative. The EU has also recently adopted proposals to overhaul its insurance regulatory regime through Solvency II. Among other objectives, these enhancements will seek to improve the operational efficiency of the respective insurance markets and approach a level playing field

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<sup>9</sup> G20 - "G20 Working Group 1 - Enhancing Sound Regulation and Strengthening Transparency", March 25 2009.

<sup>10</sup> IBID – Pg 39.

<sup>11</sup> <http://www.iaisweb.org/index.cfm?pageID=28>.

<sup>12</sup> IAIS - "International Association of Insurance Supervisors - Insurance Core Principles and Methodology", October 2003.

for market participants, including that insurers from foreign jurisdictions can be assessed as being broadly equivalent. Transparency is important to the Authority and will be a key component of jurisdictional equivalence assessments. Should the Authority be assessed as being broadly equivalent with key jurisdictions, benefits accruing to Bermuda insurers include:

- Ability to compete in global markets on a non-discriminatory basis;
- Lower risk of multiple capital requirements;
- Removal of the need for group solvency calculations on a number of different regulatory fronts; and
- Improved ability to optimise (and increased fungibility of) group capital.<sup>14</sup>

#### **4. BERMUDA MARKET TRANSPARENCY TASKFORCE**

37. The Authority has always valued its strong working relationship with the insurance sector in matters related to legislative and regulatory enhancements. Towards this end, a Transparency Taskforce (“the Taskforce”) was formed and comprised of representatives from the Authority and market participants. The Taskforce’s mandate was to research both international regulatory initiatives and existing industry practice, and recommend enhancements to the Authority’s commercial market regime to ensure that Bermuda disclosures regulation is appropriate and broadly equivalent with international standards.

38. The Taskforce formed a Workgroup to conduct research and submit proposals for the Taskforce’s consideration. An internal report from the Workgroup, endorsed by the Taskforce, was presented to the Authority with recommendations and issues for further consideration. A number of the proposals in this paper were predicated on the recommendations of the Workgroup and the Taskforce.

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<sup>13</sup> IAIS - “Standard on Disclosures Concerning Technical Performance and Risks for Non-life Insurers and Reinsurers”, October 2004, and IAIS - “Standard on Disclosures Concerning Investment Risks and Performance for Insurers and Reinsurers”, October 2005.

## **5. GUIDING PRINCIPLES FOR DISCLOSURES**

39. The Workgroup recommended specific principles that should underpin the Authority's disclosures framework. In determining its own principles, the Authority reviewed and adapted the recommendations as follows:

- Regulatory disclosures should be more timely and comprehensive than public disclosures, but limited to information applicable to the prudent supervision of insurers. In determining regulatory disclosures, due regard should be given to the necessary balance between the benefits of additional information and the cost incurred by insurers, taking into account disclosures made to other regulators;
- Public disclosures should be reliable, clear, understandable, consistent, relevant, and material, having due regard for information that would compromise competitive advantage and confidentiality; and
- Disclosures should be developed and implemented in tandem with international standards and be proportional to the size, business mix, complexity, and the risk profile of insurers.

## **6. ROLE OF REGULATORY AND PUBLIC DISCLOSURES**

40. In this paper, regulatory disclosures are disclosures submitted to the Authority and are not made public. Public disclosures, on the other hand, are published either in printed or electronic form.

41. As noted in paragraphs 17 to 19, the role of regulatory disclosures is to allow the supervisor to appropriately assess an insurer's risk profile and ability to meet its obligations.

42. With respect to public disclosures, ICP 26 asserts that "the supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear

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<sup>14</sup> BMA - "Bermuda's Insurance Solvency Framework - The Roadmap to Mutual Recognition", March 2009, Pg 1.

view of their [the insurers'] business activities and financial position and to facilitate the understanding of the risks to which they are exposed"<sup>15</sup>.

43. Simply stated, the purpose of public disclosure is to improve the ability of market participants, including policyholders, to assess the financial position of insurers and associated risks. Supervisors have a role to play in ensuring that insurers provide this information.

44. The information that is disclosed to market participants should be broad enough to allow for a thorough review of an insurer's financial condition, performance, business activities, and associated risks. However, public disclosure of information should not compromise competitive advantage and confidentiality.

45. There is a higher expectation of regulators that leading jurisdictions will ensure sufficient public information is available on internationally active insurers. Other stakeholders (such as counterparties and those seeking to benefit policyholders - supranational bodies, analysts, and rating agencies, etc.) have similar expectations.

## **7. ROLE OF BOARD AND SENIOR MANAGEMENT**

46. The board and senior management are responsible for the prudent administration of the respective organisation. This includes ensuring that appropriate controls are in place, including those around reporting systems. In this regard, the Authority expects the board and senior management to ensure that the information provided, both to the Authority and the public, has been prepared in utmost good faith and is in compliance with Bermuda's laws and regulations. The board and senior management are expected to deal with the Authority in an open and cooperative manner.<sup>16</sup> Although external resources may be employed, such as external auditors and actuaries, the ultimate responsibility for public and regulatory disclosures rests with the

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<sup>15</sup> IAIS – “Insurance Core Principles and Methodology”, October 2003, Pg 42.

<sup>16</sup> BMA – “Guidance Note #12 - Corporate Governance”, March 2005.

board and senior management. It is envisioned that elements of the enhanced disclosure proposals will require formal declarations from the board and senior management.

## **8. 2010 PROPOSED DISCLOSURES**

47. The Authority envisions the development of its disclosures framework to span over three phases with each phase designed to be a building block for the next. The Authority appreciates the scale of the proposed regime and will seek to consult further and conduct training sessions with Class 4, Class 3B and Class 3A insurers, and insurance groups to facilitate as efficient a transition as possible.

48. The Authority's Transparency Paper outlined a three-phased approach with a focus on Phase 1, with particular emphasis on 2009 proposals. The Transparency Paper also provided a description and the rationale for most of the disclosures over the three phases. In this paper, the Authority will not repeat that information, but rather refers stakeholders to the Transparency Paper. However, the Authority will elaborate in situations where the information was not sufficiently covered on account of the concepts being still in development.

49. The Authority will focus 2010 reporting on the Commercial Insurer's Solvency Self Assessment ("CISSA") Return and Cat Return. The Authority proposes to consolidate these into the Capital and Solvency Return (prescribed by the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2009).

## 8.1. Solo Reporting Requirements

50. The following summarises solo reporting disclosures for Class 3A, 3B and 4 insurers, and outlines the proposed effective reporting years. These are then consolidated on Appendices B, C and D.

### 2010 Reporting Year

#### Class 3A insurers

<i>2010</i>	
<i>Categories</i>	<i>New Disclosures</i>
CSR	➤ BSCR-SME trial run.
CISSA	➤ CISSA trial run.
Catastrophe risk	➤ Cat Return trial run (applicable to insurers writing property catastrophe risk).
Underwriting performance	<ul style="list-style-type: none"> <li>➤ Qualitative description of underwriting strategy.</li> <li>➤ Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.</li> </ul>
Investments and derivatives	<ul style="list-style-type: none"> <li>➤ Description of the process for calculating the effective duration where provided for in the BSCR-SME for both investment assets and insurance obligations and key assumptions;</li> <li>➤ Description of the investment policy;</li> <li>➤ Description of the policies surrounding the use of derivatives; and</li> <li>➤ Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total investment portfolio listed by assets, liabilities, long and short positions, respectively.</li> </ul>
Ad hoc disclosures	<ul style="list-style-type: none"> <li>➤ These may include those disclosures required for on-site reviews, actions prompted by any regulatory issues and/or additional information based on the Authority's ongoing assessment of the insurer.</li> <li>➤ 2010 ad hoc disclosures include the legal entity quantitative impact study ("QIS").</li> </ul>
Eligible capital	<ul style="list-style-type: none"> <li>➤ Schedule of capital instruments eligible for ECR; and</li> <li>➤ Schedule of capital instruments eligible for MSM.</li> </ul>

### Class 3B insurers

<i>2010</i>	
<i>Categories</i>	<i>New Disclosures</i>
CSR	➤ BSCR, including related schedules.
CISSA	➤ CISSA trial run.
Catastrophe risk	➤ Cat Return trial run.
Group exposure where the Authority is not the Group-wide Supervisor	<ul style="list-style-type: none"> <li>➤ Identification of the group-wide supervisor;</li> <li>➤ Group statutory capital requirement and group capital and surplus; and</li> <li>➤ Inventory of material intra-group transactions.</li> </ul>
Underwriting performance	<ul style="list-style-type: none"> <li>➤ Qualitative description of underwriting strategy; and</li> <li>➤ Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.</li> </ul>
Investments and derivatives	<ul style="list-style-type: none"> <li>➤ Description of the process for calculating the effective duration for both investment assets and insurance obligations and key assumptions;</li> <li>➤ Description of the investment policy;</li> <li>➤ Description of the policies surrounding the use of derivatives; and</li> <li>➤ Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total investment portfolio listed by assets, liabilities, long and short positions, respectively.</li> </ul>
Ad hoc disclosures	➤ 2010 ad hoc disclosures include the legal entity QIS.
Public Disclosures	➤ Audited financial statements US GAAP or IFRS for public publication.
Eligible capital	<ul style="list-style-type: none"> <li>➤ Schedule of capital instruments eligible for ECR; and</li> <li>➤ Schedule of capital instruments eligible for MSM.</li> </ul>

## 2010 Reporting Year

### Class 4 insurers

<i>2010</i>	
<i>Categories</i>	<i>New Disclosures</i>
Investments and derivatives	<ul style="list-style-type: none"><li>➤ Description of the policies surrounding the use of derivatives; and</li><li>➤ Market value and nominal exposure of each financial instrument with a nominal exposure greater than 5% of total investment portfolio listed by assets, liabilities, long and short positions, respectively.</li></ul>
Group exposure where the Authority is not the Group-wide Supervisor	<ul style="list-style-type: none"><li>➤ Identification of the group-wide supervisor;</li><li>➤ Group statutory capital requirement and group capital and surplus; and</li><li>➤ Inventory of material intra-group transactions.</li></ul>
Catastrophe risk	<ul style="list-style-type: none"><li>➤ Cat Return trial run.</li></ul>
CISSA	<ul style="list-style-type: none"><li>➤ CISSA trial run.</li></ul>
Underwriting performance	<ul style="list-style-type: none"><li>➤ Qualitative description of underwriting strategy; and</li><li>➤ Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.</li></ul>
Investments and derivatives	<ul style="list-style-type: none"><li>➤ Description of the policies surrounding the use of derivatives; and</li><li>➤ Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total investment portfolio listed by assets, liabilities, long and short positions, respectively.</li></ul>
Ad hoc disclosures	<ul style="list-style-type: none"><li>➤ 2010 ad hoc disclosures includes the legal entity QIS.</li></ul>
Eligible capital	<ul style="list-style-type: none"><li>➤ Schedule of capital instruments eligible for ECR; and</li><li>➤ Schedule of capital instruments eligible for MSM.</li></ul>

## 2011 Reporting Year

### Class 3A Insurers

<i>2011</i>	
<i>Categories</i>	<i>New Disclosures</i>
CSR	➤ BSCR-SME, including related schedules.
Catastrophe risk	➤ Cat Return including related schedules (applicable to insurers writing property catastrophe).
CISSA	➤ CISSA-related disclosures.
Economic balance sheet	➤ Economic balance sheet related disclosures.
Group exposure where the Authority is not the Group-wide Supervisor	<ul style="list-style-type: none"> <li>➤ Identification of the Group-wide Supervisor;</li> <li>➤ Group statutory capital requirement and group capital and surplus; and</li> <li>➤ Inventory of material intra-group transactions.</li> </ul>
Risk register	➤ Risk register including material risk identified, impact assessment or categorisation (e.g. low, medium, high or other rating metric), related controls, a rating of the effectiveness of these controls, and risk owner.
Eligible capital	<ul style="list-style-type: none"> <li>➤ Schedule of capital instruments eligible for ECR; and</li> <li>➤ Schedule of capital instruments eligible for MSM.</li> </ul>
Underwriting performance	<ul style="list-style-type: none"> <li>➤ Qualitative description of underwriting strategy.</li> <li>➤ Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.</li> </ul>
Investments and derivatives	<ul style="list-style-type: none"> <li>➤ Description of the process for calculating the effective duration, where provided for in the BSCR-SME, for both investment assets and insurance obligations and key assumptions;</li> <li>➤ Description of the investment policy;</li> <li>➤ Description of the policies surrounding the use of derivatives; and</li> <li>➤ Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total investment portfolio listed by assets, liabilities, long and short positions, respectively.</li> </ul>
Public disclosures	➤ Audited financial statements US GAAP or IFRS for public publication.

## 2011 Reporting Year

### Class 4 and Class 3B Insurers

<i>2011</i>	
<i>Categories</i>	<i>New Disclosures</i>
Group Exposure where the Authority is not the Group-wide Supervisor	<ul style="list-style-type: none"><li>➤ Identification of the Group-wide Supervisor;</li><li>➤ Group statutory capital requirement and group capital and surplus;</li><li>➤ Inventory of material intra-group transactions; and</li><li>➤ Quarterly legal entity unaudited financial statements.</li></ul>
Group-wide supervision	<ul style="list-style-type: none"><li>➤ Group statutory reporting includes: BSCR and related schedules, risk management and governance, underwriting performance, investments and derivatives, intra-group exposures, concentration risks, and quarterly unaudited management accounts.</li></ul>
CISSA	<ul style="list-style-type: none"><li>➤ CISSA related disclosures.</li></ul>
Catastrophe risk	<ul style="list-style-type: none"><li>➤ Cat Return including related schedules.</li></ul>
Economic balance sheet	<ul style="list-style-type: none"><li>➤ Economic balance sheet related disclosures.</li></ul>
Risk Register	<ul style="list-style-type: none"><li>➤ Risk register including material risk identified, impact assessment or categorisation (e.g. low, medium, high or other rating metric), related controls, a rating of the effectiveness of these controls, and risk owner.</li></ul>
Underwriting	<ul style="list-style-type: none"><li>➤ Loss triangles by broad lines of groupings: property, property reinsurance, casualty, financial lines, other specialty and structured/finite.</li></ul>
Public disclosures	<ul style="list-style-type: none"><li>➤ Trial run with disclosures (intended for the public for the following year) filed with the Authority for review and feedback.</li></ul>

## **8.2. Group Reporting requirements**

51. The Authority proposes to collect additional information to assist in conducting its group-wide assessment regime. This includes information that may come directly from the Group-wide Supervisor where the Authority does not hold this position.

52. The Authority will place reliance on the parent's board and senior management to ensure that both regulatory and public disclosures, to the best of their knowledge and belief, fairly represent the financial condition of the insurance group's operations in all material respects.

53. The Authority may make a determination to accept an insurance group's reporting requirements as a replacement for the solo reporting in certain cases where the group disclosures are not materially different from what the Bermuda insurer would submit, or if the Bermuda insurer's information can be extracted from group reporting information and provide the Authority with sufficient information concerning the legal entity to properly assess its risk profile.

54. The Authority proposes transitional insurance group filing requirements for the 2010 year-end. The Authority will give due regard to information that insurance groups submit as part of their public filings. However, to the extent where such information is not a part of these filings, the Authority would require insurance groups to submit them for the period in question. The Authority proposes the following reporting disclosures for insurance groups for 2010 reporting year:

## 2010 Reporting Year

### Insurance Groups

<i>2010</i>	
<i>Categories</i>	<i>New Disclosures</i>
Financial reporting requirements	<ul style="list-style-type: none"><li>➤ Annual audited consolidated financials;</li><li>➤ Business projections;</li></ul>
Corporate governance	<ul style="list-style-type: none"><li>➤ List of major shareholders, board and senior management; and</li><li>➤ Organisational structure.</li></ul>
Risk management	<ul style="list-style-type: none"><li>➤ Risk management strategy.</li></ul>
Solvency	<ul style="list-style-type: none"><li>➤ Group Capital and Solvency Return – Group BSCR and related schedules;</li><li>➤ Intra-group transactions;</li><li>➤ Schedule of capital instruments eligible for the Group MSM; and</li><li>➤ Schedule of capital instruments eligible for the Group ECR.</li></ul>
Group structure	<ul style="list-style-type: none"><li>➤ List of legal entities operating within the group categorised as follows:<ol style="list-style-type: none"><li>i. Regulated entities (including the financial sectors these entities operate in);</li><li>ii. Unregulated entities (including the financial sectors these entities operate in);</li><li>iii. Where the legal entities are located –entities grouped by country or State (for the United States entities);</li></ol></li><li>➤ The total assets of each entity;</li><li>➤ The total net assets<sup>17</sup> or equity of each entity;</li><li>➤ Proportional of ownership of each entity; and</li><li>➤ Sector (see Appendix A).</li></ul>

<sup>17</sup> Net assets/equity means assets minus liabilities.

55. Reporting requirements for the insurance group would include the following broad areas<sup>18</sup>, summarised in the table below:

**Summary of Bermuda Insurance Groups reporting requirements**

<i>2011 -Broad areas</i>	
<i>Categories</i>	<i>New Disclosures</i>
Financial reporting requirements	<ul style="list-style-type: none"> <li>➤ Annual audited consolidated financials;</li> <li>➤ Quarterly unaudited consolidated financials;</li> <li>➤ Business projections; and</li> <li>➤ Valuation analysis to determine economic values.</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>➤ Due diligence documents for major shareholders, board and senior management;</li> <li>➤ Organisational structure;</li> <li>➤ Terms of reference for board of directors and its sub-committees; and</li> <li>➤ The structure of the board of directors and executive management, including roles and work experience of officers.</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>➤ Risk management strategy;</li> <li>➤ Risk appetite and framework surrounding risk concentrations, intra-group transactions, off-balance sheet exposures, unregulated entities, contagion effects, etc;</li> <li>➤ Stress tests and scenario tests;</li> <li>➤ Risk controls; and</li> <li>➤ Disaster Planning.</li> </ul>
CISSA	<ul style="list-style-type: none"> <li>➤ CISSA-related disclosures.</li> </ul>
Cat Return	<ul style="list-style-type: none"> <li>➤ Cat Return including related schedules.</li> </ul>
Solvency	<ul style="list-style-type: none"> <li>➤ Group Capital and Solvency Return – Group BSCR and related schedules;</li> <li>➤ Approved Group Internal Model;</li> <li>➤ Intra-group Transactions;</li> <li>➤ Schedule of capital instruments eligible for the Group MSM;</li> <li>➤ Schedule of capital instruments eligible for the Group ECR; and</li> <li>➤ Restrictions on the fungibility of capital and the transferability of assets.</li> </ul>
Underwriting and claims performance	<ul style="list-style-type: none"> <li>➤ Underwriting strategy; and</li> <li>➤ Reserving methodology for insurance reserves.</li> </ul>
Investments and off-balance sheet transactions	<ul style="list-style-type: none"> <li>➤ Investment strategy;</li> <li>➤ Asset management arrangements (intra-group);</li> <li>➤ Effective duration for investment assets and insurance obligations</li> <li>➤ Off-balance sheet commitments – exposure values of guarantees, contingent arrangements; loans, letters of credit, securities lending arrangements etc.</li> </ul>
Group Structure	<ul style="list-style-type: none"> <li>➤ List of legal entities operating within the group categorised as follows:</li> </ul>

<sup>18</sup> The disclosure items under these broad areas are not meant to be exhaustive but rather examples of what these areas would cover.

	<ul style="list-style-type: none"> <li>i. Regulated entities (including the financial sectors these entities operate in);</li> <li>ii. Unregulated entities (including the financial sectors these entities operate in);</li> <li>iii. Where the legal entities are located –entities grouped by country or State (for the United States entities);</li> <li>➤ The total assets of each entity;</li> <li>➤ The total net assets<sup>19</sup> or equity of each entity;</li> <li>➤ Proportional of ownership of each entity; and</li> <li>➤ Sector (see Appendix A).</li> </ul>
Intra-group transactions and risk concentrations	<ul style="list-style-type: none"> <li>➤ A list of material<sup>20</sup> intra-group transactions;</li> <li>➤ Details of material intra-group transactions including (where applicable): <ul style="list-style-type: none"> <li>i. Exposure value (face value or market value, if the latter is available);</li> <li>ii. Counterparties involved including where are they located;</li> <li>iii. Summary details of the transaction – including purpose, terms, transaction costs etc;</li> <li>iv. Duration of the transaction; and</li> <li>v. Performance triggers.</li> </ul> </li> <li>➤ Details surrounding reinsurance and retrocession arrangements including: <ul style="list-style-type: none"> <li>i. Aggregated values of the exposure limits (gross and net) by counterparties, broken down by counterparty rating;</li> <li>ii. Aggregated premium flows between counterparties (gross and net); and</li> <li>iii. The proportion of the group’s insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangements.</li> </ul> </li> <li>➤ Top 10 counterparties <ul style="list-style-type: none"> <li>i. Exposure values (face value or market value, if the latter is available); and</li> <li>ii. Transaction type.</li> </ul> </li> </ul>
Compliance	<ul style="list-style-type: none"> <li>➤ Rating agency reports, any regulatory action taken by a solo supervisor, rating agency actions.</li> </ul>
Public Disclosures	<ul style="list-style-type: none"> <li>➤ Audited group financial statements using US GAAP or IFRS;</li> <li>➤ Risk Management;</li> <li>➤ Corporate Governance;</li> <li>➤ Financial Condition and Solvency Report.</li> </ul>

<sup>19</sup> Net assets/equity means assets minus liabilities.

i. <sup>20</sup> Materiality with regards to intra-group transactions will be defined as follows:

- i. an intra-group transaction whose impact can cause a reduction in the insurer’s available statutory capital & surplus by 5% or more;
- ii. a series of linked intra-group transactions that can cumulatively reduce an insurer’s available capital & surplus by 10% or more
- iii. Qualitative risk characteristics of the transaction: for example, a transaction may be assessed as high risk; however, the quantitative impact remains unknown.

56. In its role as solo supervisor, the Authority may request and review information submitted to the Group-wide Supervisor along with the solo statutory reporting for the Bermuda legal entities. The Authority reserves the right to request additional information and/or more frequent reporting as it may deem necessary in order to conduct its group-wide supervisory assessment.

## **9. RELATED INITIATIVES**

57. As noted in the Authority's 2009 market communication,<sup>21</sup> the implementation of several initiatives is proposed by 2011. That communication provides a detailed description of each initiative so the Authority has not sought to describe them in this paper. The Authority will ensure that its disclosures regime is consistent with these initiatives. These initiatives will in some areas require unique disclosures (some still to be determined). The initiatives are as follows:

- Eligible capital
- CISSA
- Cat Return
- Economic Balance Sheet and proposed changes to regulatory reporting

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<sup>21</sup> IBID

<sup>22</sup> BMA - "Discussion paper on implementing group-wide supervision", 31<sup>st</sup> March 2009.

## **9.1. Eligible capital**

58. The Authority will seek to enhance the reporting requirements of the Statutory Financial Return (prescribed by the Act and Regulations) and the Capital and Solvency Return (prescribed by the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008) (2009 Consolidated) to include disclosure of all capital instruments eligible for the respective tiers for Class 4, Class 3B and Class 3A insurers, and insurance groups. The eligible capital rules are still being finalized based upon comments received during the consultation. Legislation is planned for Q4 2010.

## **9.2. CISSA**

59. The Authority proposes to enhance its regulatory framework by introducing a regime that requires insurers to perform an assessment of their own risk and solvency requirements referred to as CISSA. This is consistent with, and will augment, the self-assessment that will be required by the Insurance Code of Conduct which will be implemented beginning July 2010 with a transitional period extending to December 31<sup>st</sup> 2010. Accordingly, the Authority has published a consultation paper on CISSA.

60. The Authority's long-term aim is to consolidate and streamline reporting procedures and reduce compliance costs. Accordingly, the Authority proposes to embed the CISSA Return and the related disclosures in the Capital and Solvency Return (prescribed by the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008 (2009 Consolidated)).

### **9.3. Catastrophe Return**

61. The Bermuda insurance market is one of the largest reinsurance centres in the world, supplying the largest property catastrophe reinsurance capacity to the US of all non-US markets. To assess their catastrophe exposures, insurers typically use vendor models<sup>22</sup>. Therefore, the assessment of the assumptions and methodologies used to determine the catastrophe risk exposure are of great interest to the Authority due to its significant contribution to the regulatory capital requirement.

62. Consequently, the Authority is currently developing a Cat Return for Class 4 and Class 3B insurers, Class 3A insurers writing property catastrophe business, and insurance groups. The Cat Return serves as a tool to assist the Authority in assessing the reasonableness of inputs into the catastrophe component of the regulatory capital requirement, and whether regulatory standards are being appropriately implemented. Additionally, it will provide information on the extent of reliance on vendor models and the quality of catastrophe modelling, and it introduces new stress/scenarios for terrorism risks.

63. Similar to the CISSA Return, the Cat Return and the related disclosures will be embedded in the Capital and Solvency Return (prescribed by the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008 (2009 Consolidated)). A guidance paper on this topic will be published in Q3 2010.

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<sup>22</sup> The Authority published the "Survey of Economic Capital Modelling Practices in the Bermuda Insurance Market" in December 2008, which discussed vendor models in more depth.

#### **9.4. Economic Balance Sheet and proposed changes to regulatory reporting**

64. The Authority is considering the introduction of an economic balance sheet and proposes to replace the current statutory reporting with general purpose reporting (i.e. US GAAP or IFRS financial statements). It is believed that this approach would more closely represent the economic position of insurers. Consequently, a Discussion Paper addressing these proposals will be issued in Q3 2010.

### **10. NOTIFICATIONS**

65. The Authority proposes to require all insurers to notify the Authority of “material change to insurance business”. This provision of notifications of a “material change to insurance business” is already in effect for Class 4 insurers. The Authority considers such changes to include:

- Mergers & acquisitions
- Divestitures
- Loss portfolio transfers
- Introduction of new products
- Entry into new territories
- Significant expansion or reduction in volume of business (run-off)
- Other changes to the most recent business plan submitted to the Authority

66. In principle, a “material change in insurance business” includes any changes (or planned change) that has the potential to significantly impact:

- Insurer’s risk profile
- Insurer’s solvency and/or liquidity position
- Insurer’s regulatory compliance
- Insurer’s reputation

## **11. PROPORTIONALITY AND WAIVERS**

67. The Authority will allow insurers and insurance groups to apply for (prior written) approval for modified filing and/or waivers under Sections 6C and 56 of the Act, where applicable. The Authority appreciates that some exceptions may exist where detailed regulatory disclosures may be inappropriate for an insurer or insurance group given its risk characteristics. Such cases could include insurers in run-off.

68. The Authority appreciates that information such as risk management and governance are often centralised, resulting in processes and procedures being implemented consistently at both the group and legal entity levels. In these instances, the Authority proposes to consider applications to largely waive *legal entity regulatory disclosures* in exchange for a single disclosure covering both the legal entity and group levels. Similarly, the Authority proposes to consider applications to accept non-Bermuda group disclosures as a substitute for the Bermuda legal entity (subsidiary) disclosures, provided the group is considered by the Authority to be from a jurisdiction that the Authority has assessed as having a broadly equivalent regulatory regime<sup>23</sup> and sufficient information is available to facilitate appropriate prudential supervision of the Bermuda subsidiary.

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<sup>23</sup> BMA - “Discussion Paper on Implementing Group-wide Supervision”, 31<sup>st</sup> March 2009, Pgs 15-16.

69. Further, the Authority proposes to introduce provisions to largely waive *legal entity public* disclosures and require only group disclosures in rare circumstances, which may include:

- Where the associated group disclosures do not materially<sup>24</sup> differ from that which would be disclosed for the legal entity; or
- Where legal entity disclosures, on account of financial accounting conventions, do not in the Authority's opinion appropriately reflect the economic characteristics of the Bermuda insurer. An example could arise in business combinations where statutory and general purpose accounting use different criteria to establish the acquirer, resulting in the economic characteristics of an insurer *appearing materially dissimilar* from its statutory position when reported on a general purpose accounting basis.

70. In the above cases, the waiver would generally be accompanied by Authority issued directions; an insurer should expect that some aspects of its legal entity information (partial disclosures) would be required to be made public to give stakeholders a sense of the scale of the legal entity and maintain transparency.

71. The Authority will consider applications on a case by case basis. Notwithstanding, insurers should not fail in their obligations to develop systems, processes and/or measures that are in proportion to their risk profile.

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<sup>24</sup> Materiality may be assessed both quantitatively (e.g. the legal entity's assets comprise approximately 90% of the total consolidated assets of the group, etc.) and qualitatively (e.g. the risk characteristics of the legal entity resembles the group's so that key disclosures critical for a stakeholder legal entity risk-profile assessment could be discerned from group disclosures).

## **12. IMPLEMENTATION PERIOD**

72. Except for where 2011 is indicated, implementation of the proposals will be effective for the reporting periods beginning 2010.

## **13. AGGREGATE MARKET STATISTICS AND XBRL REPORTING**

73. In addition to facilitating more in-depth insurer analysis, the proposed disclosures would put the Authority in a position to publish higher quality aggregate market statistics to inform both the market and other stakeholders. It would also allow the Authority to increase its contribution to supervisory literature presented in international forums, solidifying the Authority's position as a leading risk-based financial regulator.

74. The Authority is working to streamline its regulatory procedures and envisages a consolidated reporting package. In particular, the Authority is currently developing an electronic reporting facility using an XBRL<sup>25</sup> platform. XBRL is a language for the electronic communication of business and financial data that enables the separation of form and content. The XBRL platform will allow the Authority to develop procedures to combine data across insurers into homogenous sets, which will then be analysed to recognise market trends. Such information will also provide a report on each insurer showing how it compares to its peers and allow the Authority to develop benchmarks and provide feedback to the industry on market practice.

75. To facilitate the introduction of XBRL, the Authority will supply XBRL-enabled filing documents. Additionally, an insurer with its own XBRL technology will also be able to file using XBRL-formatted information taken directly from its internal systems or using its internal forms that have been XBRL-enabled.

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<sup>25</sup> eXtensible Business Reporting Language.

## Appendix A - Global sector classifications<sup>26</sup>

Sectors	Industries in sector
Energy Materials	Oil, gas, consumable fuels and energy equipment Chemicals, construction materials & containers & packaging Metals & mining Paper & forest products
Industrials	Machinery and equipment Construction & engineering and building products Commercial & professional services Transportation (air, road, road & water)
Consumer Discretionary	Automobile & components Consumer durables & textile apparel Hotels & restaurants Consumer services & retailing Media
Consumer Staples	Food & staples retailing Agricultural products, beverage & tobacco Household & personal products
Health Care	Health care equipment & services Pharmaceuticals, biotechnology & life sciences
Financials	Banks Diversified financials Insurance Real estate Capital markets
Information Technology	Software & internet services Technology hardware & equipment IT services, computer components and semiconductor equipment
Telecommunication Services	Telecommunication services
Utilities	Electric, water & gas utilities
Others	Unspecified industry group

<sup>26</sup> Global Industry Classification Standard (“GICS”) is an [industry taxonomy](#) developed by Morgan Stanley Capital International ([MSCI](#)), and [Standard & Poor's](#) (S&P) for use by the global financial community.

## Appendix B - Class 4 insurers – Phase 1 Proposed Disclosures

- Prescribed format
- ✗ Trial run
- ✓ Proposed adoption

			Regulatory *		
	Sub-Category	Description	2010	2011	FINAL
I	CISSA	a) CISSA trial run and implementation including filing.	✗	✓	✓
II	Underwriting performance	a) Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.	✓		✓
		b) Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.	✓ □		✓ □
III	Catastrophe risk	Trial run, implementation, including Cat Return filing and related schedules	✗ □	✓	✓ □
IV	Investments and derivatives	a) Description of the policies surrounding the use of derivatives; and	✓		✓
		b) Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total assets listed by assets, liabilities, long and short positions, respectively.	• ✓		• ✓
V	Group exposure where the Authority is not the Group-wide supervisor	a) Identification of the Group-wide supervisor;	✓		✓
		b) Group statutory capital requirement and Group capital and surplus;	✓		✓
		c) Inventory of material intra-group transactions; and	✓		✓
		d) Quarterly unaudited financial statements – legal entity basis.	□	✓	✓ □
VI	Loss triangles	a) Tables of loss experience for broad line of business groupings: “Property”, “Property reinsurance”, “Casualty”, “Financial lines”, “Other specialty” and “Structured /finite reinsurance”	✗ □	✓ □	✓
VII	Ad hoc disclosures	a) Legal entity and group QIS.	• ✗		
VIII	Public disclosures	a) Trial run with disclosures (intended for the public for the following year) filed with the Authority for review and feedback.		✗	✗

IX	Eligible capital	a) Schedule of capital instruments eligible for ECR.	✓		✓
		b) Schedule of capital instruments eligible for MSM.	✓		✓
X	Economic balance sheet	a) Disclosures related to the economic balance sheet.		✓	✓
XI	Risk register	Risk register including material risk identified, impact assessment or categorisation (e.g. low, medium, high or other rating metric), related controls, a rating of the effectiveness of these controls, and risk owner.		✓ <input type="checkbox"/>	✓ <input type="checkbox"/>

- The Authority will assess stakeholder needs and monitor international developments and make determinations accordingly regarding the specific information to be included in the 2011 trial run of public disclosures.

## Appendix C - Class 3B insurers – Phase 1 Proposed Disclosures

- Prescribed format
- ✕ Trial run
- ✓ Proposed adoption

			Regulatory *		
	Sub-Category	Description	2010	2011	FINAL
I	CSR	a) Implementation BSCR filings Including related schedules.	✓		✓
II	Audited GAAP financial statements	a) File audited financial statements prepared in accordance with GAAP.	✓		
III	CISSA	a) CISSA trial run and implementation including filing.	✕	✓	✓
IV	Underwriting performance	a) Qualitative description of underwriting strategy; and	✓		✓
		b) Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.	✓		✓
V	Catastrophe risk	Trial run, implementation, including Cat Return filing and related schedules.	✕	✓	✓
VI	Investments and derivatives	a) Description of the process for calculating the effective duration for both investment assets and insurance obligations and key assumptions;	✓		✓
		b) Description of the investment policy;	✓		✓
		c) Description of the policies surrounding the use of derivatives; and	✓		✓
		d) Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total assets listed by assets, liabilities, long and short positions, respectively.	• ✓		• ✓
VII	Group exposure where the Authority is not the Group-wide supervisor		✓		✓
		a) Identification of the Group-wide supervisor;	✓		✓
		b) Group statutory capital requirement and Group capital and surplus;	✓		✓
		c) Inventory of material intra-group transactions; and	✓		✓
		d) Quarterly unaudited financial statements – legal entity basis.	✓		✓

VIII	Loss Triangles	a) Tables of loss experience for broad line of business groupings: “Property”, “Property reinsurance”, “Casualty”, “Financial lines”, “Other specialty” and “Structured /finite reinsurance”.	✗ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓
IX	Adhoc disclosures	a) Legal entity and group QIS.	• ✗		
X	Public disclosures	a) Trial run with disclosures (intended for the public for the following year) filed with the Authority for review and feed back.		✗	✗
		b) Audited financial statements US GAAP or IFRS for public publication.	✓	<input type="checkbox"/>	✓ <input type="checkbox"/>
XI	Eligible capital	a) Schedule of capital instruments eligible for ECR; and	✓		
		b) Schedule of capital instruments eligible for MSM.	✓		
XII	Economic balance sheet	a) Disclosures related to the economic balance sheet.		✓	✓
XIII	Risk Register	Risk register including material risk identified, impact assessment or categorisation (e.g. low, medium, high or other rating metric), related controls, a rating of the effectiveness of these controls, and risk owner.		✓ <input type="checkbox"/>	✓ <input type="checkbox"/>

- The Authority will assess stakeholder needs and monitor international developments and make determinations accordingly regarding the specific information to be included in the 2011 trial run of public disclosures.

## Appendix D - Class 3A insurers – Phase 1 Proposed Disclosures

- Prescribed format
- ✕ Trial run
- ✓ Proposed adoption

			Regulatory *		
	Sub-Category	Description	2010	2011	FINAL
I	CSR	a) Trial run and implementation, including BSCR-SME filings.	✕	✓	✓
II	CISSA	a) CISSA trial run and implementation including filing.	✕	✓	✓
III	Underwriting performance	a) Reconciliation of beginning and ending loss reserve LOB balances;		• ✓	• ✓
		b) Qualitative description of underwriting strategy; and	✓		✓
		c) Details of the projected annual net premiums, underwriting profit or loss, and net income or loss.	✓		✓
	Catastrophe risk	Trial run, implementation, including Cat Return filing and related schedules (applicable to insurers writing property catastrophe).	✕	✓	✓
IV	Investments and derivatives	a) Description of the process for calculating the effective duration where provided for in the BSCR-SME for both investment assets and insurance obligations and key assumptions;	✕	✓	✓
		b) Description of the investment policy;	✕	✓	✓
		c) Description of the policies surrounding the use of derivatives; and	✕	✓	✓
		d) Market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total assets listed by assets, liabilities, long and short positions, respectively.		• ✓	• ✓
V	Group exposure where the Authority is not the Group wide supervisor			✓	✓
		a) Identification of the group-wide supervisor;		✓	✓
		b) Group statutory capital requirement and Group capital and surplus;		✓	✓
		c) Inventory of material intra-group transactions; and		✓	✓
		d) Listing and activities of group legal entities by regulated, unregulated, EU, US, and other.		✓	✓

VI	Ad hoc disclosures	a) Legal entity QIS.	• ✓		
VII	Public disclosures	a) Audited financial statements US GAAP or IFRS for public publication.		✓	✓
VIII	Eligible capital	a) Schedule of capital instruments eligible for ECR; and	✗	✓	✓
		b) Schedule of capital instruments eligible for MSM.	✗	✓	✓
IX	Economic balance sheet	a) Disclosures related to the economic balance sheet.		✓	✓
X	Risk register	Risk register including material risk identified, impact assessment or categorisation (e.g. low, medium, high or other rating metric), related controls, a rating of the effectiveness of these controls, and risk owner.		✗ <input type="checkbox"/>	✗ <input type="checkbox"/>

- The Authority will assess stakeholder needs and monitor international developments and make determinations accordingly regarding the specific information to be included in the 2011 trial run of public disclosures.

## Appendix E - Insurance Groups – Phase 1 Proposed Disclosures

- Prescribed format
- ✕ Trial run
- ✓ Proposed adoption

			Regulatory		
	Sub-Category	Description	2010	2011	FINAL
I	Financial reporting requirements	a) Annual audit consolidated financials;	✕	✓	✓
		b) Business projections;	✕	✓ □	✓ □
		c) Quarterly unaudited consolidated financials; and	□	✓ □	✓ □
		d) Valuation analysis to determine economic values.	□	✓ □	✓ □
II	Corporate Governance	a) List of major shareholders, board and senior management;	✕	✓	✓
		b) Due diligence documents for major shareholders, board and senior management		✓	✓
		c) Organisational structure;	✕	✓	✓
		d) Terms of reference for board of directors and its sub-committees; and	□	✓	✓
		e) The structure of the board of directors and senior management, including roles and work experience of officers.	□	✓	✓
III	Risk Management	a) Risk management strategy;	✕	✓	✓
		b) Risk appetite and framework surrounding risk concentrations, intra group transactions, off-balance sheet exposures, unregulated entities, contagion effects etc.;	□	✓	✓
		c) Stress tests and Scenarios tests;	□	✓	✓
		d) Risk Controls; and	□	✓	✓
		e) Disaster Planning.	□	✓	✓
IV	Solvency	a) Group Capital and Solvency – Group BSCR and related schedules;	✕	✓	✓
		b) Intra-group transactions;	✕	✓	✓
		c) Schedule of capital instruments eligible for the Group MSM;	✕	✓	✓
		d) Schedule of capital instrument eligible for the Group ECR;	✕	✓	✓
		e) Approved Group Internal Model;		✓	✓
		f) Restrictions on the fungibility of capital and the transferability of assets.		✓	✓
	CISSA	a) CISSA-related disclosures.		✓ □	✓ □

	Cat Return	a) Cat Return including related schedules.		✓	✓
	Solvency	a) Group Capital and Solvency Return - Group BSCR and related schedules;		✓	✓
		b) Approved Group Internal Model;		✓	✓
		c) Intra-group transactions;		✓	✓
		d) Schedule of capital instruments eligible for the Group MSM;		✓	✓
		e) Schedule of capital instruments eligible for the Group ECR; and		✓	✓
		f) Restrictions on the fungibility and transferability of assets.		✓	✓
IX	Underwriting and claims performance	a) Underwriting strategy; and		✓	✓
		b) Reserving methodology for insurance reserves.		✓	✓
X XI	Investments and off-balance sheet transactions	a) Investment strategy;		✓	✓
		b) Asset management arrangements (intra-group);		✓ □	✓ □
		c) Effective duration for investment assets and insurance obligations;		✓ □	✓ □
		d) Off-balance sheet commitments – exposure values of guarantees, contingent arrangements, loans, letters of credit, securities lending arrangements etc.		✓ □	✓ □
	Group Structure	a) Regulated entities (including the financial sectors these entities operate in);	✗	✓ □	✓ □
		b) Unregulated entities (including the financial sectors these entities operate in);	✗	✓	✓
		c) Where the legal entities are located – entities grouped by country or State (for the United States entities);	✗	✓	✓
		d) The total assets of each entity;	✗	✓	✓
		e) The total net assets or equity of each entity;	✗	✓	✓
		f) Proportional ownership of each entity; and	✗	✓	✓
		g) Sector (see Appendix A).	✗	✓	✓
XII	Intra-group transactions and risk concentrations	a) A list of material intra-group transactions;		✓ □	✓ □
		b) Details of material intra-group transactions including (where applicable): i. Exposure value (face value or market value, if the latter is available); ii. Counterparties involved, including where they are located iii. Summary details of the transaction – including purpose, terms, transaction costs etc.; iv. Duration of the transaction; and v. Performance triggers.		✓ □	✓ □
		c) Details surrounding reinsurance and retrocession arrangements including: i. Aggregated values of the exposure limits (gross and net) by counterparties, broken down by counterparty rating; ii. Aggregated premium flows between counterparties (gross and net); and iii. The proportion of the group's insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangement.		✓ □	✓ □

		d) Top 10 counterparties: i. Exposure values (face value or market value, if the latter is available); and ii. Transaction type.		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
XIII	Compliance	a) Rating agency reports any regulatory action taken by a solo supervisor rating agency actions.		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Public Disclosures	a) Audited groups financial statements using US GAAP or IFRS;		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
		b) Risk management;		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
		c) Corporate governance;		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
		d) Financial Condition and Solvency Report.		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

## Appendix F - Illustration of integration of disclosures within the SRP process

