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PRESS RELEASE

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BERMUDA MONETARY AUTHORITY PROPOSES NEW ELIGIBLE CAPITAL REQUIREMENT AND ORSA REGIME FOR BERMUDA INSURERS, CONSULTS ON INSURANCE CODE OF CONDUCT

Proposals Mark Latest Milestones Towards Preparing Jurisdiction for Regulatory Equivalence Assessments

The Bermuda Monetary Authority today published three market communications outlining proposals on various enhancements to its regulatory framework for Bermuda (re)insurers. These documents are: *Consultation Paper on Eligible Capital*, *Discussion Paper on the Own Risk and Solvency Assessment (ORSA) Process*, and *Consultation Paper on the Insurance Code of Conduct*. The Authority proposes introducing the enhancements outlined in the papers initially to Class 4 and Class 3B (re)insurers, in line with its risk-based approach to regulation.

Matthew Elderfield, CEO of the Authority said, “The Authority has made significant progress in enhancing Bermuda’s regulatory regime for (re)insurers, consistent with the requirements set under Pillars 1, 2, and 3 of Europe’s Solvency II Directive. The publication of these documents shows that we are keeping pace with international developments in insurance regulation and are on target for achieving regulatory equivalence with Solvency II.”

The Consultation Paper on Eligible Capital outlines the Authority’s planned approach to determining capital resources eligible to meet regulatory capital requirement levels. The Authority is proposing a three-tiered capital system which would classify a capital instrument into a given tier based on its ability to absorb losses. Eligibility limits would then be applied to each tier to determine what proportion of regulatory capital each one should cover for an insurer.

The proposals in the paper supplement the requirements of the Bermuda Solvency Capital Requirement, the Authority’s standard risk-based capital adequacy model that was implemented at the end of 2008.

Craig Swan, Director, Policy, Research and Risk Assessment said, “The Authority proposes to extend the system to Class 3A insurers one year after introduction, in accordance with the proportionality principle. We also propose to apply a three-tiered capital system to our group-wide supervisory regime upon its adoption.”

The Discussion Paper on Own Risk and Solvency Assessment (ORSA) relates to Pillar 2 of Solvency II. The ORSA process involves requiring firms to demonstrate the link between their capital model, risk



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governance and strategic decision-making. This process helps regulators better understand the risk-profile of companies. The Authority acknowledges that while ORSA is becoming a requirement of regulatory regimes worldwide, the concept is still very much in development. Therefore, the Discussion Paper provides high level guidance on the Authority's approach to implementing an ORSA process suitable for the Bermuda market.

Mr. Swan said, "The Authority views the ORSA process as an opportunity to align management and regulatory reporting where information requested for regulatory purposes can be met to a great extent from existing management information. We also propose to use the ORSA process to consolidate regulatory reporting requirements and encourage sound risk management practices within the jurisdiction."

The Consultation Paper on the Insurance Code of Conduct builds upon and codifies the governance standards already established within the jurisdiction. The Code establishes duties, requirements, and standards to be complied with by (re)insurers, including the procedures and sound principles to be observed by firms. It addresses such pertinent issues as corporate governance, risk management, governance mechanisms, outsourcing and market discipline and disclosure.

All three documents are available on the Authority's website: www.bma.bm.

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