BERMUDA MONETARY AUTHORITY

28 February, 2017

NOTICE

BSCR Models for 2016 Year-End and Reporting Clarifications

On December 2nd, 2016, the Bermuda Monetary Authority ("Authority") published for Class 4, Class 3B, Class 3A, Class C, Class D and Class E insurers, and for Insurance Groups the 2016 year-end BSCR models. Since this release, the Authority has found that insurers that use Windows 10 operating system had issues with the functionality and macros embedded in the models, and as a result, the Authority has re-published the BSCR models for the use of Windows 10 and prior. Further the Authority has amended the Class 4, Class 3B, Class 3A, Class C, Class D and Class E models for the following issue:

1) Form 1SFS Unconsolidated Note for Funds Held By Ceding Reinsurers – The note for Funds Held By Ceding Reinsurers was incorrectly referring balances on the consolidated column when it should be the unconsolidated columns.

The Authority would like to advise that if the Windows 10 operating issue or the error above does not impact an insurer, then it is recommended to use the model published on December 2nd.

<u>Reporting Clarifications</u>

The Authority also would like to clarify the following requirements:

<u>Stress Scenarios</u>

1) R7. Inflation Shock – the Authority would like to confirm that the main shock for the inflation stress test is to apply the impact of the inflation rates to the inflation sensitive assets and liabilities and provide supporting documentation for each scenario in the attachment section of the BSCR model. In the instance that an insurer has Investment

notes that are subject to any inflation adjustment, the insurer shall also provide such details. While the attachment should include the results for all four inflation scenarios under R7., the results for the "Severe Inflation" scenario should be inputted in Schedule V(e) of the BSCR.

2) R8. Mortgage Loan Shock – the Authority would like to confirm that there are 2 shocks in the Mortgage Loan stress test:
   (i) For (re)insurers that write mortgage business, the insurers are to shock their exposure for this business by increasing the default rate to 9.47%;
   (ii) For (re)insurers that hold agency MBS and/or real-estate related investment securities, insurers shall shock these investments by increasing the prepayment rate to 11.47% for the outstanding notional for agency MBS or agency real-estate securities. Also insurers are to apply an 11.47% default rate for non-agency MBS.

   Insurers are to provide the cumulative of both scenarios in the BSCR model in Schedule V(e) and provide supporting documentation for each scenario in the attachment section of the model. (Re)insurers are to provide the answers to the 4 questions under R8. in the attachment.

3) Cyber Risk – (re)insurers that write cyber risk (re)insurance products shall provide details found in Schedule V(e) of the BSCR model and to attach a template copy of their (re)insurance contract(s). (Re)insurers that have (re)insurance policies that include cyber risk exposure by reason of not containing a cyber exclusion clause (such as D&O that include cyber risk) shall provide an attachment in the BSCR model detailing the (re)insurance products that have these exposures.

<u>Catastrophe Risk Return</u>

1) Schedule X(a) & X(b) Catastrophe Risk Return: EP Curve – "Total Gross All Other Catastrophe Premium Modeled" – the Authority would like to confirm that the requirement is to provide all other catastrophe exposed premium (that is not property catastrophe premium) that has been included in the catastrophe model. Accordingly, the sum of "Total Gross (Net) Statutory Property Catastrophe Premium Modeled" and "Total

Gross (Net) All Other Premium Modeled" should only include premium related to the contracts referenced in Schedule X(f).

2) Schedule X(a) the sum of "Total Gross (Net) Statutory Property Catastrophe Limits Exposed – Modeled" and "Total Gross All Other Lines Limits Exposed – Modeled" should only relate to catastrophe limits, and be equal to "Modeled - Gross (Net) Limit Provided" on Schedule X(f). The sum of "Total Gross (Net) Statutory Property Catastrophe Limits Exposed – Not Modeled" and "Total Gross All Other Lines Limits Exposed – Not Modeled" (Schedule X(a)) should only relate to catastrophe limits and should be equal to the cumulative amount of Schedule X(f) "Modelable Gross (Net) Limit Provided" plus "Not Modelable Gross (Net) Limit Provided" minus "Modeled Gross (Net) Limit Provided". In summary, total catastrophe limits on Schedule X(a) should equal total catastrophe limits on Schedule X(f).

If you have any questions about the above, kindly send them to riskanalytics@bma.bm