Bermuda’s Insurance Solvency Framework
The Roadmap to Regulatory Equivalence
May 2012
This publication provides details of the Authority’s progress to date and planned initiatives in the regulatory change work plan for its insurance framework.

The sections cover:

Executive Summary
The objectives of our regulatory change programme and a summary of key developments to date.

Scope
Our commitment to ensuring we establish and implement an appropriate regulatory and supervisory regime for Bermuda insurers that reflects their diverse business models and risk profiles, and how we intend to continue implementing proportionate regulatory change for the various classes of insurer.

Capital Adequacy
Our proposals for introducing tiered eligible capital requirements reflecting the quality of capital, an overview of extended application of the Bermuda Solvency Capital Requirement (BSCR), our standard capital model, and further developments regarding the roll out of our internal models framework and our introduction of a Bermuda-specific Own Risk and Solvency Assessment (ORSA) regime.

Economic Balance Sheet
The potential impact of international regulatory and accounting developments towards a market-consistent valuation of assets and liabilities, and how we propose to implement these changes.

Enhanced Regulatory Reporting
Additional disclosure requirements and their phased implementation across the market.

Additional Framework Enhancements
Further specific enhancements proposed for the Authority’s commercial insurance framework to reinforce Bermuda’s alignment with international standards and support our Solvency II equivalence programme.

Group Supervision
This section provides details of our group supervision framework, and describes how we will request further information from firms as regards existing group exposures, as well as our phased implementation of a group solvency capital requirement.

Long-Term Business
This section describes progress on our work to enhance solvency and reporting standards that will be specific to Long-Term insurers.
Executive Summary

Achieving major milestones and implementing significant framework advances - this summarises the Bermuda Monetary Authority’s (the Authority or BMA) on going regulatory change programme for insurance.

Focused and substantial effort is resulting in an enhanced regulatory framework that remains independent, pragmatic and appropriate for the unique nature of the Bermuda insurance market, while being aligned with relevant global regulatory standards.

As we now move further forward with implementation of our regimes as well as continued policy development, the core objective driving this effort remains to apply risk-based regulations and supervision that:

- meet or exceed international standards;
- are proportional, reflecting the nature, scale and complexity of our market; and
- are recognised as being equivalent by other leading regulators around the world.

Our regulatory change programme has been based on the strategic vision to drive evolution of insurance regulation in Bermuda to support its leadership position and reputation as a jurisdiction. We also wish to gain global recognition for Bermuda’s experience and leadership in terms of practical, forward-looking, risk-based regulation. We also see the benefit of Bermuda’s framework being regarded as equivalent globally by other major jurisdictions that are relevant to our market.

Therefore, as the Authority conducts our regulatory change programme we have to ensure the BMA:

- remains effective, correctly balancing workable, risk-based supervisory regimes with international expectations; and also
- meaningfully consults with those within our market who will be most impacted by the changes.

The following sections provide further details about the progress achieved to date, and planned initiatives, in the regulatory change programme for our insurance framework. Market consultation has been a key part of the development effort and has proved to be invaluable; we appreciate the time and effort firms have taken to provide the Authority with feedback. This extensive consultation has supported the transition process for the market as requirements have evolved. We will continue this high level of interaction with participants across the insurance market as we implement our regimes. Our priority as we keep moving forward with this regulatory change programme is effective execution and, most importantly, doing what is right for Bermuda.

Regulatory Equivalence and Solvency II

The Authority’s progress to date with enhancements to the regulatory regime for commercial insurers reflects a progressive, risk-based approach to regulation in an evolving, increasingly complex environment. The regime is also designed to position Bermuda among the leading group of jurisdictions preparing for Solvency II equivalence.

At last issue of this Roadmap, Bermuda was proposed as being among the first wave of jurisdictions to be assessed for Solvency II equivalence. Having been selected, we subsequently completed both the off-site self-assessment and on-site visit by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA found Bermuda’s framework broadly equivalent with Solvency II for commercial insurers, i.e. Class 4, 3B and 3A firms, subject to
certain caveats. Regarding the caveats, we are actively working to address these via additional framework enhancements proposed for 2012 and currently under consultation with the market.

EIOPA also made a distinction between the commercial and captive sector regimes, finding the captives regime out of scope for equivalence with Solvency II principles. Given that the Authority has focused its framework enhancements on the commercial sector, this was a positive and appropriate result for Bermuda, recognising the diverse and unique nature of this market. Subsequent indications that the European Commission has the ability to grant bifurcated equivalence under Solvency II also align with that result.

We remain committed to achieving Solvency II equivalence, and to achieving and maintaining equivalence with international standards and best practices for insurance supervision, for the benefits to Bermuda and our market. Key principles of Solvency II are embedded in Bermuda’s regulatory legislation, i.e. policyholder protection and insurer solvency and risk management standards. Bermuda is moving forward from a solid foundation and our continued work to enhance the regulatory framework in line with Solvency II places the jurisdiction in a good position with respect to the European Commission’s decision on equivalence.

**From Policy Development to Regime Implementation**

The Authority has significantly advanced its policy development agenda for insurance regulation.

Key elements of the Authority’s enhancements to its insurance policy framework include group supervision and prudential rules, more detailed solvency and financial reporting requirements, an internal models framework and disclosure and transparency requirements for Bermuda commercial insurers; highlights of this work included:

- Overall, the substantial policy work and framework implementation we have completed to date - and will conduct through 2013 and beyond - is consistent with Pillars 1, 2 and 3 of the Solvency II Directive, covering quantitative requirements, the supervisory review process and disclosure.

**Completed Framework Developments**

- Substantially completed the policy and legislative infrastructure for group supervision, which included issuing the Insurance (Group Supervision) Rules 2011 as well as the Insurance (Prudential Standards) (Insurance Groups Solvency Requirement) Rules 2011. Also identified over 20 insurance groups for which the BMA will be the Group-Wide Supervisor (GWS)
- Completed pilots and pre-application procedures with selected insurers for the internal capital models (ICM) evaluation process
- Established the Commercial Insurers’ Solvency Self-Assessment (CISSA) requirement, our Bermuda-specific ORSA (Own Risk and Solvency Assessment)
- Advanced work to establish an Economic Balance Sheet policy and framework
- Developed a refined Bermuda Solvency Capital Requirement standard capital adequacy model as a core element of our enhanced supervisory framework for the Long-Term (life) insurance sector
- Implemented evaluations of an enhanced Schedule of Risk Management and new Catastrophe Return submissions by insurers as part of solvency assessments
- Extended our disclosure and transparency requirements to Class 3A and Class E Long-Term insurers by requiring submission of GAAP financial statements that the Authority will make publicly available.
While policy work will continue in 2012, the Authority’s focus will shift significantly from policy development to implementation; highlights of this work will include:

**Planned 2012/2013 Developments**

- Full implementation of the groups rules for Class 4 and Class 3B groups, including group solvency and financial reporting requirements, effective 1st January 2013
- Continued phased implementation of Bermuda Solvency Capital Requirement (BSCR - standard capital model) for the Long-Term sector, i.e. Class E insurers, and also refined BSCR for small commercial insurers, i.e. Class 3A, for year-end 2011 filings
- Extending the optional use of approved internal capital models to Long-Term insurers; preparation for group ICM reviews for the Long-Term sector
- Revised eligible capital rules effective 1st January 2013
- Complete (Long-Term Prudential Standard Rules), effective 1st January 2013 for Class C and Class D insurers
- Review of Commercial Insurers Solvency Self-Assessment submissions in 2012 for year-end 2011 filings from Class 4, 3B, 3A and Class E firms
- Introduction of the Quarterly Financial Return for Class 4 and Class 3B insurers, which will comprise unaudited financial statements, intra-group transactions and risk concentrations and will be filed in May, August and November 2012

**Focused on Delivering Quality Supervision**

**Right Resources, Right Skill Sets**

Our efforts to increase the Authority’s technical resources have also been very successful, and a key aspect of our strategy for delivering quality supervision. In a highly competitive global recruitment environment we have added further senior-level skills and expertise to our supervisory, policy, risk analytics, actuarial and enforcement teams. We set aggressive recruitment targets recognising that the Authority, in common with other regulators, must ensure it has the appropriate resources to implement our expanded supervisory regimes. We have also used additional resources in the form of Senior Advisors and consultants to supplement our teams to meet targeted technical needs to support execution of regulatory and supervisory goals. Parallel to the resourcing effort, we are providing our existing employees with ongoing opportunities to expand their knowledge and technical capabilities.

**Technology to Support Supervisory Effectiveness**

The use of technology to support and enhance supervisory effectiveness is already yielding promising results and efficiencies. One example is the electronic filing of BSCR submissions from firms, which began with Class 4 and Class 3B insurers and is now being extended to
Class 3A and Class E companies, and insurance groups.

Our objective remains to use technology strategically to create greater efficiencies, richer data analysis and improved reporting capability from the Authority’s systems. In 2012 we will continue developing and deploying our supporting system for e-filing – ERICA (Electronic Regulatory Information Compliance Application). ERICA is a secure web portal that receives, tracks and processes regulatory filings, material changes and other types of submissions regulated firms make to the Authority. Using the programming language XBRL (eXtensible Business Reporting Language), ERICA will streamline the reporting, collection and analysis of data for regulatory purposes. This will result in significant efficiencies internally, within our supervisory processes, while making it easier for external firms to be in compliance with the enhanced reporting requirements.

The work conducted to use XBRL to support standardised data reporting for the Authority will also assist in extending collaboration between the Authority and other regulators in relation to group supervision. With that goal in mind, this work has also formed the basis for us to lead development of a Solvency II-based XBRL taxonomy. We have shared this taxonomy over the past year with regulatory bodies such as EIOPA and our supervisory counterparts in Europe. We regard the ability to extend this work beyond Bermuda, which is now influencing the general direction of the use of XBRL reporting for insurance regulation in Europe, as a practical contribution to supporting international supervisory cooperation.

Active International Cooperation

In addition to seeking equivalence with Solvency II, the Authority remains actively involved in efforts to enhance insurance regulation and supervision internationally, particularly through the IAIS.

The Authority continues to support international supervisory cooperation through active dialogue with other regulators around the world. This cooperation and information sharing is supported by a series of Memoranda of Understanding (MOU), signed with insurance regulators globally, such as the IAIS Multilateral Memorandum of Understanding and bilateral MOUs with regulators in various US States (e.g. New York and Florida), and Europe (e.g. UK Financial Services Authority, Swiss Financial Market Supervisory Authority (FINMA)).
Scope
The development of our framework will impact both General Business and Long-Term insurers within our overall goal to ensure a proportionate regulatory approach that reflects the nature, scale, complexity and risk profile of the various classes of licence holder.

The guiding principle underlying the Authority’s refinement of the insurance regulatory and supervisory framework remains alignment with international regulatory standards appropriately, to reflect the Bermuda’s market.

As we have enhanced the commercial sector framework one goal is to achieve balanced, practical application of Solvency II-equivalent standards. The encouraging results of EIOPA’s Bermuda assessment indicate that our framework revisions are set appropriately to achieve that goal.

We have also taken a risk-based, phased approach to implementation which is proving to be effective as firms transition to the new standards. This entails cascading the roll out and application of our enhanced supervisory regimes, beginning with the largest Class 4 firms and working through the Class 3B and Class 3A companies. We are applying the same process for the Long-Term commercial sector, starting with Class E insurers.

Capital Adequacy
Implementation of our enhanced capital and solvency requirements is proceeding across the commercial insurance sector. A proportional approach is reflected in the modified requirements for Class 3A insurers.

The Authority’s work on enhancing Bermuda’s capital and solvency regulations for the insurance sector has been the cornerstone of our policy developments in recent years. Therefore the outcome of EIOPA’s equivalence assessment, which established that Bermuda’s capital and solvency regulation for commercial insurers is largely equivalent with Solvency II, was well-received by the BMA and the Bermuda market. The Authority’s long-standing goal has been to ensure Bermuda’s capital and solvency requirements balance a pragmatic, risk-based approach with consistency with relevant international standards.

In 2012, the Authority is proceeding with implementation of its enhanced capital and solvency rules. The Bermuda Solvency Capital Requirement (BSCR), our standard capital model (or an Authority-approved internal capital model), is designed to work in tandem with eligible capital requirements and the Commercial Insurers’ Solvency Self-Assessment (CISSA), which is designed to demonstrate the link between the BSCR, risk governance and decision making. Specifically:

- The CISSA will enable the Authority to take insurers’ own assessments of the capital they need into consideration when it conducts its capital assessments for regulatory purposes. The CISSA becomes effective for 2011 year-end filings for Classes E, 3A, 3B and 4. Reporting of the Group Solvency Self-Assessment (GSSA) also comes into effect for the 2011 year-end.

- The Catastrophe Risk Return (Cat Return) — which was introduced for year-end 2011 filings and applies to Class 4 and Class 3B insurers, Class 3A insurers writing property catastrophe business and insurance groups — will assist the Authority in assessing how reasonable an insurer’s inputs into the catastrophe component of the regulatory capital requirement are, and the consistency of market practices with the Authority’s standards.
The new Quarterly Financial Return for 2012 will comprise unaudited financial statements, intra-group transactions and risk concentrations. This requirement will apply to Class 4 and Class 3B insurers, and will supplement the existing submissions that such firms make to the Authority annually.

Combined application of these core components will reinforce the Authority’s ability to evaluate the quality of capital of Bermuda insurers in light of the risks associated with their business, as well as the need to support on going operations.

Eligible Capital
Work to complete implementation of the Authority’s policy framework for applying eligible capital (or Own Funds) requirements is advancing. The Authority has published eligible capital rules for both Bermuda legal entities and groups, with an effective date of 1st January 2013.

The Rules define tiers of capital that are eligible for inclusion in an insurer’s available statutory capital and surplus, and enhanced capital requirements. Generally under the Rules, capital elements with lower loss absorbency characteristics will only be available to cover capital requirements to a limited extent.

Our objective throughout the development process has been to ensure that the capital rules we establish effectively achieve the goal of policyholder protection while also being pragmatic. The Authority is taking a phased approach in implementing its eligible capital requirements, which includes transition periods designed to ensure that Bermuda insurers can take full advantage of transitional periods expected to be in place in Europe. Consistent with the proportionality principle and in an effort to phase transition for the market, implementation will begin with Class 4, 3B, 3A and E insurers and groups, with subsequent roll out to Class C and D insurers for year-end 2012 filings.

Key milestones
Eligible Capital Rules implementation:
• Class 4, 3B, 3A and E insurers and groups year-end 2012 filings
• Class C and D insurers year-end 2013 filings

Standard Capital Model (BSCR)
Having applied our standard capital model – the BSCR – to Class 4 and Class 3B insurers, the Authority has completed its work to adapt the model for Class 3A firms.

The BSCR was developed and calibrated specifically to recognise elements that are unique to the Bermuda market, e.g. the heavy property catastrophe exposures and high proportion of reinsurance business. During 2011, after a period of extensive consultation we applied further refinements to the model subsequent to conducting BSCR trial runs with Class 3A insurers. The BSCR-Small and Medium-Sized Entities (BSCR-SME) model takes into account the specific risk profile of these smaller commercial insurers.

The Authority issued the Insurance Class 3A Prudential Standard Rules at the end of 2011, which means implementation of the BSCR-SME, as well as extension of the BSCR to Class E Long-Term insurers, will take place in 2012 for year-end-2011 filings. Trial runs for Class C and D insurers are scheduled to begin in mid-2012 with a view to full implementation taking place the following year.

The Authority will also seek voluntary participation from firms for capital requirement impact assessments in 2012. This work will assist with determining how best to transition from statutory accounting to a GAAP basis for regulatory capital purposes within Bermuda’s framework, and how to appropriately incorporate an economic balance sheet requirement. It will also
be helpful in enhancing the existing risk-sensitivity built into the BSCR model.

**Key milestones**

- BSCR implementation Class E 2011 ✔
- BSCR-SME implementation Class 3A 2011 ✔
- BSCR trial run Class C and D Q3 2012
- Implementation Class C and D Q4 2012

**Internal Capital Models**

The Authority has continued to develop its processes and procedures for evaluating and approving the use of internal capital models and monitoring the output of those models once in use. On going developments over the past year have built further on key components including the detailed pre-application conditions insurers must meet prior to submitting their models for review; the application review procedures the Authority will follow; and the monitoring and control activities we will undertake once a model has been approved.

Progress in 2011 included concluding pilot reviews with General Business and Long-Term insurers, which have been beneficial for applying further refinements to the processes and procedures for internal model review and approval for use. The Authority also issued revised Guidance Notes to include enhancements to the ICM review process and to allow applications by Class 3B and Class 3A firms, and insurance groups. We also enhanced the ICM pre-application and qualification process, including the development of ICM information requests and internal scoring mechanisms.

In 2012, the Authority will continue working towards accepting and reviewing applications for the use of ICMs. We will be providing further guidance to the Long-Term sector and developing additional resources to conduct reviews. The Authority will also engage in discussions and seek to coordinate activities with other regulatory agencies in preparation for group ICM reviews.

The Authority recognises the complexities involved in the development of ICMs, and the significant time and resources required to ensure that the review and evaluation of such models is effective for both the regulator and the market. We have successfully built on our in-house technical resources and actuarial expertise to conduct the analysis that this initiative will require moving forward. However we also intend to use external resources to assist with our ICM reviews, as needed, to ensure appropriate capacity to meet the demands of the market, whilst always ensuring that approval decisions rest with the Authority.

Based on completion of the developments planned for 2012, the Authority intends to finalise and communicate to the market the full ICM implementation timeframe by the end of the year.

**Key milestones**

- Own Models (Class 4, Class 3B and Class 3A) 2011 ✔
- Issued ICM Guidance Notes - Class 4, Class 3B, Class 3A and Groups 2011 ✔
- Long-Term ICM assessment pilots 2011 ✔
- ICM Guidance Notes - Long-Term Q2 2012
- Confirm full implementation timeline Q4 2012
Commercial Insurers Solvency Self-Assessment (CISSA) and Group Solvency Self-Assessment (GSSA)

In addition to the importance of imposing prudent regulatory capital requirements based on a firm’s or group’s risk profile, the Authority recognises the need for insurers and insurance groups to incorporate an analysis of the firm’s internal capital needs into their risk management frameworks, to consider those capital needs in the development of business strategies and to reflect internal capital resources in the decision-making process.

To this end, the Insurance Code of Conduct requires all firms to conduct solvency self-assessments for risk and capital management purposes. This self-assessment is facilitated through completion of the Commercial Insurers’ Solvency Self-Assessment (CISSA) which was introduced as a trial run filing for the 2010 year-end, and became effective for the 2011 year-end for Classes E, 3A, 3B and 4. Further, reporting of the Group Solvency Self-Assessment (GSSA) also comes into effect for the 2011 year-end, and a trial run filing for Classes C and D will take place for the same year-end.

The CISSA and GSSA are Bermuda-specific own risk and solvency assessment (ORSA) processes, consistent with the existing high-level guidance on ORSA from the IAIS and developing Solvency II requirements, but taking into account the unique characteristics of the Bermuda market. The CISSA and GSSA will provide us with the insurer’s or group’s perspective of the capital resources necessary to achieve its business strategies and remain solvent given its risk profile, and we will also gain insights on the risk management, governance procedures and documentation surrounding this process.

Our expectation is that firms or groups will be able to demonstrate via the CISSA and GSSA that strong links exist between their risk assessments, governance structures and processes and levels and composition of internal capital. It will provide an opportunity for insurers or groups to demonstrate that their capital levels, quality of capital and risk management procedures and policies are commensurate with their risk profile. It also includes a forward looking perspective, which augments an insurer’s or group’s ability to deal with the impact of future external changes in its risk and solvency position.

The CISSA and GSSA will therefore become critical tools within our supervisory review process. We will expect insurers or groups to have processes that are proportionate to the nature, scale and complexity of the risks inherent to their business in order to conduct the CISSA and GSSA. We will apply the use test, as well as qualitative assessments and quantitative analysis of a firm’s or group’s CISSA and GSSA processes (respectively), as part of our review. This will require insurers or groups to explain and justify their CISSA and GSSA assessments in their entirety (e.g. the methodology used, the use and effectiveness of the capital model applied, key assumptions, results of the assessment, sources of data used, etc.), and to demonstrate that they have appropriately considered and accounted for all material risks that should be reasonably known. The CISSA and GSSA processes, following the overall principles of the ORSA, should be an integral aspect of a firm’s or group’s capital management. In addition, the CISSA will augment the self-assessment that will be required by the Insurance Code of Conduct (the Code), which became effective on 1st July 2010. Therefore, we will also use CISSA as a tool in the supervisory review process to assist in monitoring compliance with the Code.
Key milestones

• Implementation - Groups, Classes E, 3A, 3B and 4 2011 ✔

• Trial run Classes C and D Q3 2012

Economic Balance Sheet

The Authority is continuing its development of an economic balance sheet (EBS) approach for both General Business and Long-Term insurers, notwithstanding delays in the accounting convergence projects internationally that have resulted in an extension of the original schedule for completion of the EBS initiative. The principle underlying the EBS initiative remains that for solvency purposes assets and liabilities should be valued on a consistent economic basis, since this reflects more faithfully a firm’s solvency position. We also believe that an EBS approach provides greater transparency into the true economic position of regulated entities and enhances our risk-based supervision for the protection of policyholders. In developing an EBS approach, we are monitoring closely the development of international accounting standards, primarily those of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).

In 2012, we will continue consultation with the market on this initiative, following on from the original discussion paper the Authority issued in August 2010. Our intention is to implement the requirements using a phased approach. Some of the important principles underlying our work in this regard include:

• Valuation of assets and liabilities on a consistent economic basis to reduce or eliminate (where possible) accounting mismatches where no underlying economic mismatches exist

• Broad consistency with Solvency II and international standards, taking into consideration the unique characteristics of the Bermuda market

• Proportionality

• Materiality

Delays in the rollout of Solvency II and the work on convergence of standards of the IASB and FASB present some practical challenges to the implementation of an EBS approach. The Authority intends to address these challenges by adopting a flexible principles-based approach supported by guidelines.

Key milestones

Consultation paper – General Business Q2 2012

Consultation paper – Long-Term Q2 2012

Enhanced Regulatory Reporting

The Authority has made significant progress with its phased implementation of proportionate enhanced regulatory reporting requirements for Bermuda’s insurers.

Much work has been completed for the phased implementation of an enhanced disclosure regime for the Bermuda market. Over the past three years the Authority has developed enhanced and standardised regulatory reporting requirements covering risk management, governance and related financial information. These enhanced requirements are designed to provide a more complete understanding of insurers’ risk profiles. The enhancements have been developed based on international standards, taking into account the unique characteristics of the Bermuda market.

The key elements of the regime are general purpose financial statements (US GAAP, IFRS); the CISSA; and the
accompanying Catastrophe Risk Return (Cat Return), which allows us to better assess the composition of the Probable Maximum Loss submissions we receive from firms and the quality of modelling generally in the Bermuda market.

The Authority is applying the disclosure regime in a proportionate, measured manner. Phased implementation began with Bermuda’s largest commercial insurers, i.e. the Authority has required Class 4 and Class 3B firms to produce publicly available GAAP financial statements since 2009 and 2010, respectively. For the year-end 31st December 2011, Class 3A and Class E Long-Term insurers are required to file such statements, and Class C and Class D Long-Term firms will make the filings for year-end 2012.

This work completes Phase 1 of our disclosures and transparency initiative. In Phase 2 (reporting periods 2012 to 2014) and Phase 3 (reporting periods 2015 and beyond), the Authority will consider the need for additional public disclosures in light of evolving international standards and market conditions. The Authority will consult with industry on any new proposed disclosure initiatives.

Key milestones
GAAP financial statements:
- Class 3A, Class E Q4 2011
- Class C and Class D Q4 2012
- Phased implementation Present-2015

Additional Framework Enhancements
The Authority is proposing further specific enhancements for its commercial insurance framework to reinforce Bermuda’s alignment with international standards and support its equivalence programme.

Consultation has begun with the market regarding the Authority’s proposals for additional specific framework enhancements for commercial insurers, i.e. Class 4, 3B and 3A General Business and Class E, D and C Long-Term companies.

The proposals are consistent with the Authority’s overall commitment to ensure Bermuda’s framework remains aligned with relevant international standards. They are also based on the European Insurance and Occupational Pensions Authority’s (EIOPA) recent Solvency II assessment of Bermuda, which reflected areas we had identified for additional framework enhancements. The proposed enhancements are specifically focused on:

- Ensuring the independence of the internal audit function within an insurer’s operations;
- Requiring the separate incorporation of entities conducting Long-Term and General Business activities written on a direct basis;
- The segregation within an entity of insurance and non-insurance business, to address the possible risk of contagion or the transfer of risks between non-traditional business and traditional insurance lines of business, which could negatively impact policyholders and other stakeholders;
- New licensing application requirements, which will involve providing expanded information related to capital adequacy as well as governance and risk management policies, including governance around outsourcing arrangements;
- Revised minimum solvency measures;
- Solvency reporting and disclosure requirements that would require commercial insurers and insurance
groups to disclose publicly their compliance with the Minimum Solvency Margin (MSM) and Enhanced Capital Requirement (ECR) and any material breach of the MSM or ECR; and

- New material change notifications, reinforcing the need for the Authority to ensure it has timely and comprehensive information regarding material changes to an insurer’s business operations, including the outsourcing of key functions.

Consultation on these proposals took place in the first quarter of 2012. This will be followed by issuing of subsequent supporting legislative changes, with a view for final rules or requirements to be effective as of January 2013. The exception will be the proposal related to separate incorporation and capitalisation of direct Long-Term and General Business operations, which would be effective 1st July 2012.

**Group Supervision**

*The Authority has made significant advances in establishing group supervision for the Bermuda insurance market; this development remains a key component of our enhanced supervisory framework for insurers.*

Our goal to ensure the Authority has the ability to form a comprehensive view of the overall risk exposure of Bermuda’s insurance groups via effective group supervision remains on track for full implementation as of 1st January 2013.

Over the past year, the Authority has introduced the final elements of the policy and legislative infrastructure for group supervision in Bermuda. This included issuing the Insurance (Group Supervision) Rules 2011 as well as the Insurance (Prudential Standards) (Insurance Groups Solvency Requirement) Rules 2011. This legislation prescribes various key components of the groups regime, including:

- The determination and scope of an insurance group;
- Provisions for group wide solvency assessments, including the method for determining the Groups BSCR for all insurance groups for which the Authority is the appointed Group Wide Supervisor, the Group Solvency Self-Assessment (our group-specific ORSA), eligible capital requirements, the treatment of intra-group transactions and risk concentrations;
- Statutory group financial reporting requirements; and
- Assessment of corporate governance and risk management of a group.

In 2011, the Authority identified over 20 insurance groups for which the BMA will be the Group Wide Supervisor. We also piloted a trial run of the Groups BSCR with Class 4 and Class 3B insurers.

In 2012, we will be preparing for full implementation of the supervisory review process for Bermuda’s insurance groups. This will involve applying to Class 4 and Class 3B groups the group-specific on-site processes we have developed over the past year, as well as our group solvency and financial reporting requirements. We will also use the insights gained from the trial run and group on-site pilot reviews the Authority has conducted as we apply the framework.

Insurance group reporting requirements will take effect for the 2011 year-end;
however, transitional arrangements will be in place for firms to reach compliance with other aspects of the group supervision regime by the time they become effective on 1st January 2013. Certain transitional provisions, e.g. for eligible capital requirements, have also been set to ensure Bermuda’s insurers can take full advantage of reaching compliance in a timeframe that is consistent with similar transitional periods expected in Europe.

Our approach in developing the regime has remained proportionate and risk-based, recognising the significant impact group supervision could have on the various sectors of the Bermuda market. This means we are taking a phased approach to implementation, beginning with Class 4 and Class 3B groups.

The Authority also recognises the pivotal role of supervisory colleges in supporting effective group supervision. Therefore, hosting and participating in such colleges to review and assess insurance groups with other relevant fellow regulators will continue to be core to our regime. This will also complement our existing interaction and bi-lateral meetings with relevant regulators overseas for on going supervisory cooperation.

In anticipation of our role as Group Wide Supervisor, the Authority is aiming to ensure clarity for participants in colleges we will host by establishing formal governance processes that will include:

- Establishing the scope of work for such colleges in assessing a group, e.g. review of financial soundness and capital adequacy, group corporate governance, risk exposures and concentration, intra-group transfers, risk management and internal controls;
- The use of memoranda of understanding and confidentiality agreements; and
- The Authority’s rules of engagement for decision-making, dispute resolution and supervisory coordination.

These governance processes and other elements of the supervisory colleges framework will be the subject of guidance to be issued in 2012.

**Key milestones**
- Publication of Group Rules 2011 ✔
- Supervisory Colleges On going ✔
- Full Implementation of Group Rules Q1 2013

**Long-Term Business**

*Risk-based refinements to the supervisory regime for Bermuda’s Long-Term insurers have progressed steadily, with valuable input from the market.*

The work to enhance prudential standards appropriately for Bermuda’s Long-Term insurance companies has progressed steadily. The focus throughout the development process has been to build an approach that is both appropriate for the Bermuda market and consistent with international regulatory standards. To the extent practicable, the approach for Long-Term insurers is consistent with that developed for General Business insurers. Consultation with the Long-Term firms has helped to identify the areas in which a somewhat different approach may be necessary or appropriate.

We completed the initial step in the process of enhancing Long-Term sector regulation and supervision at the end of 2011 by refining and reclassifying firms into Classes from A (i.e. captives) to E (i.e. large commercial). This reclassification process was designed to ensure firms are appropriately supervised within the Authority’s enhanced risk-based framework.
We have begun phased implementation of enhanced reporting requirements for Long-Term firms using our customary and proportional risk-based approach, starting with the Class E firms. Incorporating feedback from a market survey and various consultative papers, we have established the BSCR for this sector, refined appropriately to the nature and risk profile of Long-Term insurers. We conducted a trial run in 2011 of BSCR filings for Class E insurers, as a precursor to phased implementation overall for the Long-Term sector.

As with the General Business sector, the Authority intends to permit the use of BMA-approved internal models to determine regulatory capital for Long-Term insurers. This also recognises that there is a range of modelling capabilities within the Long-Term sector, and allows the Authority to accommodate firms across the spectrum under the framework. We conducted a pilot ICM review with a Long-Term insurer in 2011, and we will be issuing further ICM guidance to the market in 2012, incorporating findings from the pilot.

As part of the trial run with Class E firms, the Authority issued a Group Supervisor Questionnaire to gather information to determine the Long-Term firms for which the Authority may assume responsibility as GWS. After completing our assessment of the market’s responses to this survey during 2012, we will use the findings to assist with finalising our plans for group supervision of the Long-Term sector.

**Key milestones**
- Implementation – BSCR Class E 2011
- Trial Run Class C and Class D Q3 2012
- Prudential Standard Rules Class C and Class D Q4 2012
- Implementation – BSCR Class C and Class D Q1 2013
- Legislation effective for Group Supervision-Long-Term Q1 2013

**Conclusion**
We continue to execute against our vision to remain in the first league of regulators internationally, and have made considerable progress with our regulatory change programme for Bermuda’s insurance market. Our concerted effort is resulting in enhanced regimes that are aligned with evolving international standards, while remaining practical, proportionate and effective.

As we forge ahead with our regulatory change agenda, consultation with market participants remains critical to our development process. We remain committed to assisting firms with transitioning to our enhanced regimes by maintaining a high level of engagement with the market as we move further forward with implementation.

Regulatory equivalence remains a key strategic goal for the Authority; the progress achieved to date on our framework enhancements places Bermuda in a good position to be considered as one of the first non-EU jurisdictions to achieve Solvency II equivalence.
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<tr>
<th>Solvency II Milestones</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<td><strong>Economic Balance Sheet</strong></td>
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<td>Consultation Paper: General Business</td>
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<td>Class 4, 3B and E insurers; Groups</td>
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<td>Class C and D insurers</td>
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<td><strong>Standard Capital Model (BSCR)</strong></td>
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<td>BSCR-SME Implementation: Class 3A</td>
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<td>Trial Run: Class C, Class D</td>
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<td><strong>Internal Capital Models</strong></td>
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<td>Long-Term ICM Pilot review conducted</td>
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<td>Standards &amp; Applications Framework - Guidance Notes: Long-Term Sector</td>
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<td><strong>CISSA &amp; GSSA</strong></td>
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<td><strong>Enhanced Regulatory Reporting (Disclosure)</strong></td>
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<td>Prudential Standards Rules: Class C &amp; D</td>
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