

BMA Insurance Digest

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GROUP SUPERVISION

“Group supervision is not just another layer of regulatory oversight; rather, it complements the supervision of solo entities”

In this first publication we will:

- **Revisit Bermuda’s insurance group supervision regime**
- **Provide an overview of the regime; how it has evolved in the six years since coming into force and discuss some of the challenges faced by group supervisors**
- **Provide some perspectives on what the future of Bermuda group supervision will look like**

INSURANCE GROUP SUPERVISION

BMA'S GROUP SUPERVISION REGIME

Bermuda's group supervision framework reflects international developments and principles adopted by the International Association of Insurance Supervisors (IAIS).

OBJECTIVES

The fundamental objectives have not changed:

- Policyholder protection
- Promoting financial stability
- Ensuring at least one supervisor has an overall view of the group and its associated risks
- Addressing any supervisory gaps, the risk of contagion and the impact of any unregulated entities

Key areas of focus within the group supervision framework are:

- Ensuring solvency at group level
- Monitoring intra-group transactions, including unregulated entities in the group that could compromise the solvency of the group
- Assessing key control functions such as corporate governance, risk management, actuarial and internal control processes of insurance groups

HOW HAS BERMUDA GROUP SUPERVISION EVOLVED?

Bermuda groups have been increasing market share in other jurisdictions and/or their corporate structures and business models are becoming increasingly complex and interconnected. As such, the Authority's group supervision has also evolved, underpinned by appropriate legislative powers and regulations. Group supervision is no longer perceived as an added layer of regulatory oversight, but is appreciated as being complementary to solo entity supervision.

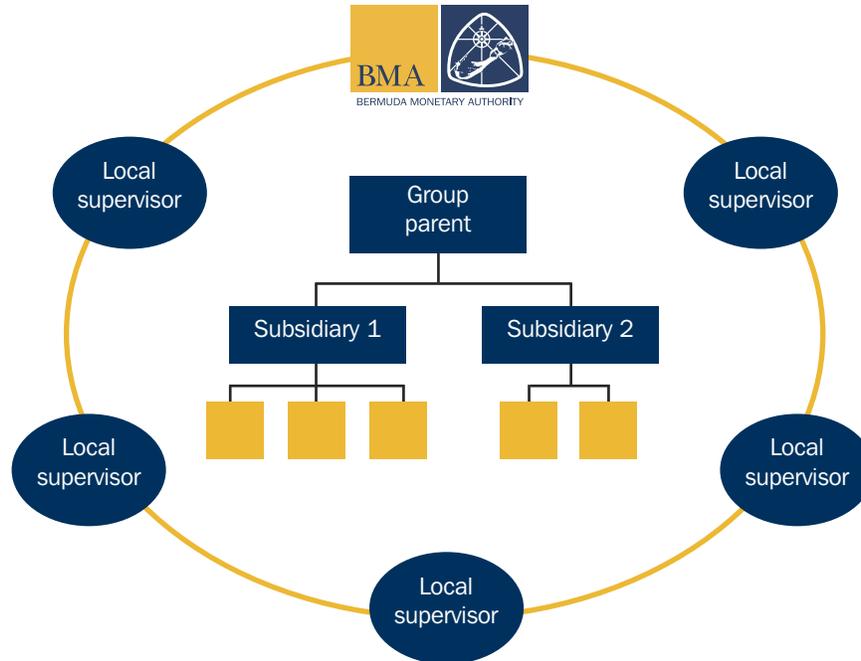
With Bermuda attaining Solvency II Equivalency, the Authority's group supervision practices are not only similar to the standards of other leading jurisdictions, but the Authority also distinguishes itself as a leader with respect to some aspects of group supervision such as 'Crisis Preparedness'¹ and development of 'Supervisory Outlook Ratings.'²

For Crisis Preparedness, the Authority leads an annual test (i.e. crisis simulation) of the Bermuda group's crisis management plan as part of the supervisory college meetings.

The Authority believes that supervision should be forward looking, not just a "rear view mirror" compliance exercise. The Supervisory Outlook Ratings assessment is derived from (among other things,) information arising from major events, analysis of the Capital & Solvency Return, results of on-site assessments, and analytical tools simulating various scenarios of a group's solvency position. With this information, the Authority assesses both the adequacy of the group's risk management and governance and its ability to withstand severe shocks and still meet regulatory capital requirements.

¹ A crisis or emergency situation is defined as any situation or event, regardless of its origin, that happens unexpectedly, and could materially affect or impair the financial condition of an insurance entity in at least one country or jurisdiction with a potential cross-border impact on one or more entities of the group in other countries and that, accordingly demands immediate actions.

² A supervisory outlook is a forward-looking assessment of an insurer's governance and risk management practices and the ability to withstand catastrophic shocks and still meet the regulatory capital requirement.



Illustrative example of an insurance group structure which can take various forms

ROLE AS GROUP SUPERVISOR

- The Authority is committed to being a leading group supervisor for appropriate entities
- Coordination and information exchange between international regulatory bodies is critical in ensuring success of group supervision
- Key activities for coordination includes, among others, regulatory matters, licensing and bi-lateral and multi-lateral discussions on key issues

LEGISLATION SUPPORTING BERMUDA'S GROUP SUPERVISION

- Insurance Act 1978
- Insurance (Group Supervision) Rules 2011
- Insurance (Prudential Standards) & (Insurance Group Solvency Requirements) Rules 2011

INSURANCE GROUP SUPERVISION

FUNCTIONS AND APPROACH

The Authority conducts its functions as group supervisor under the Act, which include:

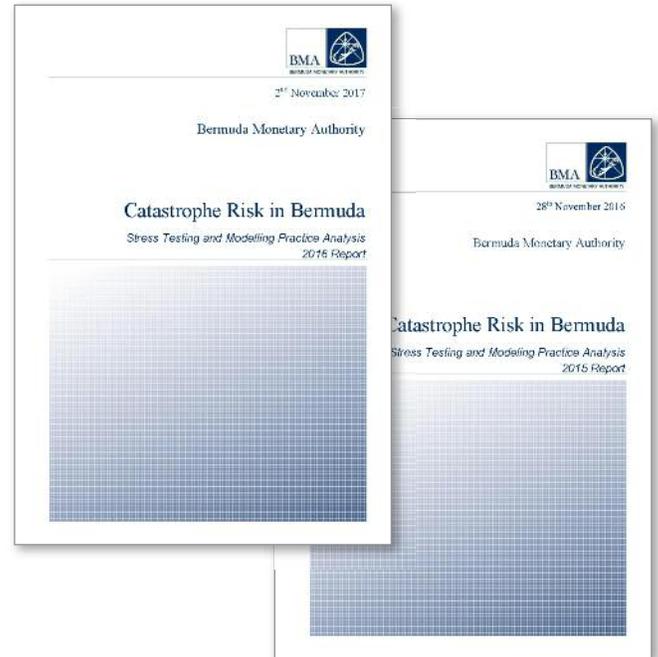
- Assessing insurance groups' compliance with the Authority's solvency rules
- Ongoing supervisory review and assessment of a group's financial position and governance systems
- Coordinating the gathering and dissemination of relevant or essential information from groups for going concern or emergency situations
- Convening and conducting supervisory colleges with other supervisory authorities that have regulatory oversight of entities within a group
- Coordinating any enforcement action that may be taken against insurance groups or their members

SOLVENCY

The Authority's minimum solvency requirements, coupled with the Authority's application of the Bermuda Solvency Capital Requirement (BSCR), continues to support overall stability of the insurance sector.

The Authority continues to monitor and evaluate the level of robustness, sophistication and comparability of Bermuda's capital requirements and continues to proactively ensure capital requirements are in line with best practices in terms of solvency regimes—this includes the ability to apply capital add-ons.

DID YOU KNOW?



The Authority plays a significant role as a leader in the regulation of the global catastrophe market and since 2015 has produced an annual report, *Catastrophe Risk in Bermuda*,³ to demonstrate its commitment to high standards of transparency.

The 2015 and 2016 reports highlighted the overall resilience of the Bermuda Insurance Industry to withstand potential adverse impacts from various catastrophe and severe, but possible underwriting losses.

³ A copy of the report is available in the Publications/BMA Surveys section of the Authority's website (www.bma.bm)

SIZE OF BERMUDA INSURANCE GROUPS

In US\$millions

| Year | # of Groups | GPW | NPW | Total Assets | Capital & Surplus |
|------|-------------|----------|----------|--------------|-------------------|
| 2016 | 24 | \$60,307 | \$45,671 | \$224,336 | \$76,861 |
| 2015 | 21 | \$42,079 | \$33,565 | \$155,307 | \$55,625 |
| 2014 | 22 | \$47,838 | \$38,787 | \$161,666 | \$56,591 |
| 2013 | 21 | \$45,014 | \$37,069 | \$151,590 | \$54,034 |
| 2012 | 22 | \$43,305 | \$35,168 | \$154,621 | \$54,695 |
| 2011 | 23 | \$40,219 | \$33,449 | \$143,977 | \$47,206 |

Source: Annual filing by Bermuda Insurance Groups

The fluctuation in the size of Bermuda’s insurance groups can be attributed to the Merger & Acquisition (M&A) activities experienced by Bermuda’s (re)insurance industry from time to time.

As group supervisor, the Authority has developed a dedicated risk-based supervisory approach to M&As which includes close engagement with various stakeholders pre and post closing of the transaction.

The Authority takes into consideration the nature of the M&A (e.g. hostile takeover or regular M&A) in determining its course of action and in all cases seeks to understand the risk and reward perspectives of the transaction.

The Authority holds discussion with regulators in jurisdictions

affected by the M&A and executive management of the impacted companies (the acquirer, the target and in some cases their joint committees). In addition, the Authority makes a prospective assessment of the capital adequacy in view of the combined risks. The Authority also conducts fitness and propriety checks with respect to shareholder controller, controller, officers and director changes and reviews relevant information presented to the Board.

Once the transaction is closed, the supervisory approach is a continuing process aimed at understanding the oversight, governance and control environment for key integration risks.

The Authority achieves this through regular engagement with the Board and executive management to obtain progress updates especially on integration /execution risks.

INSURANCE GROUP SUPERVISION

APPLYING GROUP SUPERVISION

The Authority appoints a designated insurer within the group which is the lead and administrative point of contact, through which the group is required to fulfill its regulatory reporting and compliance obligations.

BIGGEST CHALLENGES?

One of the biggest challenges has been overcoming the confidentiality rules related to the exchange/sharing of information. As such, the Authority continues to establish Memoranda of Understanding (MoUs) with relevant jurisdictions in relation to group supervisory activities.

The other area of focus has been ensuring that we have a truly global view of our insurance groups' activities. As group supervisor we need to demonstrate an understanding of the respective group's risk exposures, inherent risk, financial position soundness, capital adequacy, risk management and governance mechanisms.

This can only be achieved through effective communication, cooperation and coordination with other supervisors.

As the group supervisor we are responsible for facilitating successful supervisory colleges and ensuring that college members are actively engaged.

The true test of our effectiveness as group supervisor will come during a period of crisis. As group supervisor, we would have to take steps to limit the risk of significant problems; however, should a risk matter arise, we will facilitate rapid action alongside other supervisors and relevant authorities.

SUPERVISORY COLLEGES

The supervisory college is a forum for the collaboration and coordination of supervisory activity and the Authority views it as an ongoing process. This work may occur within supervisory college meetings or outside of the meeting setting. It is important that communication is timely and supervisors are both proactive and flexible.

Where the Authority is the group supervisor, it will host supervisory colleges on an annual basis. At minimum the frequency of the interaction between the supervisors for any Bermuda group depends on a number of factors, including risk profile, size and complexity.

Supervisory colleges are designed to provide a platform for:

- Effective supervisory cooperation and coordination between the Authority and other regulators in relation to Bermuda groups
- Developing a shared understanding among relevant regulators about the risk profile of groups in order to minimise risk of contagion
- Reducing any supervisory gaps and avoiding unnecessary supervisory duplication

During the college meetings, the Authority presents and receives detailed analysis, as well as coordinated Supervisory plans from relevant overseas regulators. Post-colleges feedback obtained from other supervisory authorities continue to demonstrate effective and efficient execution of colleges.

DID YOU KNOW?

- The BMA has participated in 123 supervisory colleges since 2012—75 of which were as group supervisor
- There are 45 regulators that participate in various supervisory colleges conducted by the BMA for its Bermuda insurance groups

FUTURE OF SUPERVISION

Emerging technologies (such as insurtech, artificial intelligence, big data, mobile technology and blockchains, among others) will have a significant impact on insurers' business models.

Regulation, together with group supervision, will need to evolve to ensure the right balance of policyholder protection without stifling innovation.

As a forward-looking supervisor, the Authority formed an Insurance Innovation Committee in 2017.

- One of the achievements of this Committee is the development of the cyber supervision regime, including enhancement to the Capital and Solvency Return disclosures for cyber-related data
- Significant work of this Committee will continue through 2018 with a particular focus on the introduction of the Regulatory Sandbox for insurtech
- Operationally, the Authority will embrace Supervision Technology (suptech) strategy through the utilisation of artificial intelligence and machine learning, such as natural language processing, to predict prospects of (re)insurers' solvency, create supervisory capacity and enhance risk-based supervision

INTERNATIONAL INTERACTION: DID YOU KNOW?

- The BMA is a full member of the International Organisation of Securities Commissions (IOSCO), a member of the Group of International Finance Centre Supervisors (GIFCS), and the Group of International Insurance Centre Supervisors (GIICS), and a founding member of the International Association of Insurance Supervisors (IAIS)
- The Authority remains active internationally by maintaining positions on key committees within IAIS; highlights of International Participation were included in the BMA annual report
- Bermuda has had qualified jurisdiction status with US' National Association of Insurance Commissioners (NAIC) since January 2015

WHAT'S NEXT?

In the second issue of *BMA Insurance Digest*, the Authority plans to cover the following topics:

- Cyber Risk
- Capital Fungibility
- Crisis Management including Crisis Simulation exercises

The above list is not exhaustive, but aims to highlight some of the current and emerging risks affecting Bermuda registrants that are being considered.

BMA INSURANCE DIGEST

THE BERMUDA MONETARY AUTHORITY (BMA or the Authority) will produce a series of publications providing views about current and emerging issues and other regulatory developments.

BMA Insurance Digest is published in electronic format only and can be downloaded as a PDF file on the Authority's website www.bma.bm.

If you wish to receive an e-mail notice when the next edition is available, you may sign up to our e-subscription service by clicking the e-alerts button on the homepage of the Authority's website.

COMMENTS AND FEEDBACK

Bermuda Monetary Authority

Email: GroupSupervisionWorkingGroup@bma.bm
Tel: (441) 295-5278 • Fax: (441) 292-7471

www.bma.bm



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