



BERMUDA MONETARY AUTHORITY

**PROPOSED CHANGES TO THE STATUTORY FINANCIAL STATEMENTS REPORTING
FRAMEWORK FOR COMMERCIAL INSURERS AND INSURANCE GROUPS - IFRS 17
CONSIDERATIONS.**

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INTRODUCTION

1. The Bermuda Monetary Authority (Authority or BMA) continues to review, monitor and evaluate Bermuda's regulatory reporting and capital frameworks to ensure they continue to be fit for purpose and are in line with best practices and international standards.
2. The Authority's regulatory reporting regime for commercial entities, namely Statutory Financial Statements (SFS), currently uses the existing accounting treatment (IFRS, US GAAP and/or any other GAAP approved by the Authority) as a starting point subject to certain prudential filters.
3. The introduction of new accounting standards for insurance contracts - IFRS 17 – *Insurance Contracts* (IFRS 17) by the International Accounting Standards Board modifies a number of accounting concepts and introduces some new concepts. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The requirements are designed to help users of financial statements better understand an insurer's exposure, profitability and financial position and to facilitate comparison across similar insurance companies. IFRS 17 became effective from 1 January 2023 and replaced IFRS 4.
4. The Authority is not looking to make changes to its economic valuation framework – Economic Balance Sheet (EBS), eligible capital rules or the Enhanced Capital Requirement (ECR) as a result of IFRS 17 and consequently does not intend to increase or reduce capital levels as a result of Insurers' adopting IFRS 17. Structurally, the BMA assesses these referred elements of its regulatory framework as continuing to be fit-for-purpose, and the overall calibration continues to be considered appropriate. The EBS framework and the resulting solvency balance sheet are considered robust. They continue to provide a consistent and reliable economic valuation basis for regulatory capital requirements calculations and are in line with international standards.
5. The Authority notes that while the majority of Bermuda commercial insurers report using US GAAP accounting principles, those who report using IFRS accounting principles have expressed a strong desire for the Authority to consider the requirements of IFRS 17 in its reporting framework, particularly with respect to the SFS framework. The use of IFRS 17 accounting policies and principles to report financial performance and insurance asset and liability items is efficient and will reduce compliance costs and alleviate the regulatory reporting burden.
6. This Consultation Paper (CP) outlines the Authority's proposed reporting considerations due to the changes resulting from IFRS 17. The proposals target Insurers and Groups in the commercial sector that report using IFRS accounting principles. No changes are being proposed to the Statutory Financial Return reporting framework for insurers in the Limited Purpose Insurer sector.
7. The Authority anticipates that as these amendments are operationalised, there may be a need to conduct a further review. The purpose of the review will be to

determine what adjustments, if any, may be further needed, given experiences with the implementation of the accounting standard as well as to ensure that regulatory reporting objectives continue to be met while mitigating any unintended consequences.

8. The format and the rules governing the proposed amendments to the SFS framework will be prescribed in the revised Insurance Account Rules and the Insurance Group Rules (collectively herein referred to as the 'Rules').
9. The Authority invites the views and feedback of the commercial Insurers that report using IFRS accounting principles and other interested stakeholders on the proposals set out in this paper. Comments should be sent to the Authority, addressed to riskanalytics@bma.bm, no later than the close of business on 14 July 2023.

REVISIONS TO THE STATUTORY FINANCIAL STATEMENTS

10. The revised Rules will seek to introduce new schedules containing the relevant content and instructions for the reporting forms, which insurers that report using IFRS accounting principles will utilise. The new reporting forms will include a balance sheet, income statement, statement of capital and surplus and notes to the SFS. The Authority will prescribe a few additional notes to the SFS and avoid the duplication of most of the notes that are already contained in the IFRS general purpose financial statements.
11. The Authority will also require supplementary information that will be considered in its prudential reviews for the purposes of enhanced analysis, class of registration migration assessments and/or generating the market statistics that are published on the Authority's website and within its Annual Report.
12. The new reporting forms for insurers that report using IFRS accounting principles will need to be prepared on both a consolidated and unconsolidated basis. The unconsolidated information, reflecting the legal entity's unconsolidated financial position, will be used to assess the liquidity position and Minimum Solvency Margin (MSM) applicable to the Bermuda Insurer.
13. The reporting forms contemplate similar prudential filters as those currently applied in the existing Rules that Insurers will need to apply to the IFRS general purpose financial statements in order to derive the SFS. Prudential filters refer to:
 - a. Adjustments to eliminate non-admitted assets. These include prepayments, goodwill and other similar intangible assets not considered admissible for solvency purposes; and
 - b. Adjustments to include certain assets and liabilities that are generally off-balance sheet under general purpose reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.

14. The approved auditor will provide audit assurance on both the consolidated and unconsolidated SFS, ensuring that the prudential filters and adjustments are applied appropriately.
15. Please reference the draft Statutory Financial Statements template link located in Annex 1 in conjunction with clauses 16 through 27.

BALANCE SHEET

16. No significant changes on the Assets side are being proposed.
 - a. Assets held within a business model with the objective of holding assets in order to collect contractual cash flow should be recorded in the 'Assets Held to maturity/collection' section of Lines 2(a) and 3(a). All other assets will be recorded in 'Other';
 - b. Insurance-related receivables (i.e., expected outstanding premiums) will not be shown separately as an asset on the balance sheet. Instead, they will be included in the Insurance contracts liabilities. The Authority will, however, require the disclosure of the premium receivables together with the ageing of the balances in the notes to the SFS;
 - c. Policy Loans will not be shown separately as an asset on the balance sheet. Instead, they will be included in the Insurance contracts liabilities;
 - d. For Insurance Contract Assets, insurers will be required to present the following separately in the balance sheet: insurance¹ contracts issued, reinsurance contracts held² and investment contracts with discretionary participation features that are in an asset position rather than an offset to the liabilities; and
 - e. Insurers will be expected to disclose a reconciliation of the changes in reinsurance contract assets for both General Business and Long-term Business, detailing changes in the net assets for the remaining coverage and assets for incurred claims recoverable from reinsurance.
17. On the Liabilities side:
 - a. Insurers will be required to present separately insurance contracts issued and reinsurance contracts held that are liabilities;
 - b. General Business commercial insurers (Class 3A, Class 3B and Class 4 insurers) shall be required to set aside an adequate provision to meet insurance contract liabilities reported before, but not paid by, the last day of the relevant year, in respect of incidents occurring before that

¹ Insurance contracts issued or Reinsurance contracts issued/assumed (Inwards contracts).

² Reinsurance contracts held refers to Outward Reinsurance contracts.

day. They must also meet expenses likely incurred concerning the investigation, adjustment and settlement of such losses. The said provisions shall include amounts in respect of losses reported and an adequate amount in respect of losses incurred but not reported to the insurers before the last day of the relevant year;

- The required provision shall not include any amount recoverable under a reinsurance contract in respect of the gross amount provided for
 - The net insurance contract liabilities reported in the SFS by Class 3A, Class 3B and Class 4 insurers shall not be less than those reported in the insurer's audited IFRS general purpose financial statements
- c. Long-term commercial insurers (Class C, Class D, Class E) shall present in the balance sheet an adequate amount set aside to meet insurance contract liabilities at the end of the relevant year in respect of incidents occurring and reported before the end of that year. The amount set aside shall not be reduced by any amount recoverable under a contract of reinsurance in respect of the gross amount provided for;
- The insurer's net long-term insurance contract liabilities shall not be less than the net long-term insurance contract liabilities calculated using values in the insurer's audited IFRS general purpose financial statements
- d. Insurers will be expected to disclose a reconciliation of the changes in insurance contract liabilities for both General Business and Long-term Business, detailing changes in remaining coverage liabilities and incurred claims;
- e. Liabilities for investment contracts with discretionary participation features, representing investment contracts that include features that expose policyholder obligations based on market risks relating to the underlying instruments, will need to be presented separately in the balance sheet; and
- f. Insurance-related payables shall not be presented together with other non-insurance payables. They shall instead be part of the computed insurance contract liabilities.

18. IFRS17 (for contracts measured under the GMM³ approach) introduces an additional contract liability known as the contractual service margin (CSM⁴) to

³ GMM denotes General Measurement Model, which is the default measurement approach under IFRS 17.

⁴ CSM is not applicable to products measured under Profit Allocation Approach (PAA).

eliminate any gain on day one. Essentially, CSM represents unearned/future profits and is released into earnings as insurance contract obligations are fulfilled. Arguably, the CSM will absorb some adverse impacts from changes in actuarial or financial assumptions, which under previous IFRS 4 directly eroded equity. Notwithstanding the latter, CSM loss-absorbing capacity is limited by its lack of fungibility as well as its illiquidity. The Authority takes the position at this time that CSM should be reported as part of insurance contract liability in the SFS. Under the EBS valuation framework, technical provisions methodology is prescribed and the issue of CSM does not arise.

STATEMENT OF INCOME

19. An Insurer shall be required to present insurance revenue depicting the provision of services arising from insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. A detailed breakdown of the insurance revenue will be required as a disclosure note to the SFS.
20. An Insurer shall be required to present insurance service expenses comprising of incurred claims (excluding repayments of investment components⁵), other incurred insurance service expenses and other amounts, as appropriate.
21. An Insurer shall be required to present the income or expenses from reinsurance contracts held with the expectation of insurance finance income or expenses. The insurer shall also separate the amounts recovered from the reinsurer and an allocation of the premiums paid and show the net amount.
 - a. Reinsurance cash flows that are contingent on claims on the underlying contracts shall be treated as part of the claims that are expected to be reimbursed under the reinsurance contract held;
 - b. Amounts from the reinsurer that are expected to be received that are not contingent on claims of the underlying contracts (e.g., some types of ceding commissions) shall be treated as a reduction in the premiums to be paid to the reinsurer; and
 - c. The allocation of premiums paid shall not be a reduction in revenue.
22. An insurer shall also present net financial results comprising of net investment income and net insurance finance income or expenses.
23. Where an insurer elects to account for certain insurance finance income and expenses through the Other Comprehensive Income in the IFRS General purpose financial statement, those insurance finance income and expenses amounts would not be included in the SFS income statement. Instead, the

⁵ Investment components are the amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

comprehensive income shall be reported in the statement of changes in capital and surplus – line 2(g) and the details appropriately disclosed accordingly.

24. The volume of business written metrics, namely gross and net written premiums, will need to be tracked and disclosed as part of the supplementary notes to the SFS.

STATEMENT OF CAPITAL AND SURPLUS

25. No significant changes are being proposed related to the Statement of Capital and Surplus.
 - a. The Authority proposes that the impact of transitioning to IFRS 17 in the first year of using the new forms will be recorded in Line 2(g), ‘change in other statutory capital/surplus’ and disclosed accordingly. The impact of IFRS 17 will be disclosed separately from all other amounts recorded in Line 2(g);
 - b. Movements in accumulated other comprehensive income (loss) during the year will be included as part of Statutory Capital and Surplus and should be accounted for in Line 2(g); and
 - c. A high-level reconciliation of the total statutory capital and surplus recorded in the SFS to that in the IFRS financial statements will be required as part of the completion of the Capital and Solvency Return (CSR) – form V(g).

OTHER PROPOSED AMENDMENTS

26. Schedules VII and VIII to the Insurance Accounts Rules that pertain to the Minimum Solvency Margin have been amended to incorporate references to the relevant forms and relevant line items for insurer reporting using IFRS accounting principles.
27. The minimum liquidity ratio for general business computation within the summary tab has been mapped to the relevant line items as per the new balance sheet or relevant disclosure item.

TIMELINES AND COMPARATIVES

28. The proposed reporting forms will first be applicable for the year-end that the Insurer first reports under IFRS 17. In this regard, given that IFRS 17 became effective 1 January 2023, insurers who have a 31 December year-end and therefore preparing their first full year IFRS 17 financial statements as of 31 December 2023, the annual regulatory reporting based on the proposed forms will be due to the Authority by 4 April 2024.

For insurers who do not have a 31 December 2023 year-end, their first full year IFRS 17 financial statements will be due in 2024 and the related regulatory reporting forms will apply for that year-end. For example, for an insurer with a 31 March year-end, the first full-year audited IFRS 17 financial statements will be as of 31 March 2024, with regulatory reporting using the proposed forms being due to the Authority by 31 July 2024.

29. No comparatives will be required in the first use of the templates. Insurers should, however, expect engagement with their supervisors on the IFRS 17 adoption and any related impacts to the entity's financial condition.

ANNEX 1 – DRAFT STATUTORY FINANCIAL STATEMENTS TEMPLATE

Please refer to the Excel file titled: 'Draft Statutory Financial Statements Template' located at the link below:

<https://www.bma.bm/document-centre/discussions-consultation-papers>