

28 November 2023



STAKEHOLDER LETTER

RE: Consultation Paper – “Proposed Changes to the Statutory Financial Statements Reporting Framework”- for Commercial Insurers

The Bermuda Monetary Authority (Authority or BMA) would like to thank stakeholders for their continued support in furthering the development of Bermuda’s regulatory reporting and capital frameworks. The Authority appreciates all of the feedback received on the Consultation Paper issued in May 2023 on the proposed changes to the Statutory Financial Statement Reporting Framework (SFS) – given IFRS 17 and is committed to working closely with stakeholders to ensure the reporting framework is proportionate and continues to be fit for purpose.

The Authority’s responses to the key substantive comments that were received are outlined below.

RESPONSE TO INDUSTRY FEEDBACK

1. Economic Balance Sheet (EBS) valuation framework, BSCR model adjustments and linkage of certain BSCR schedules to the revised forms

Feedback Received:

Stakeholders sought to confirm if the Authority would be making any changes to the EBS valuation framework as a result of IFRS 17 and what considerations were being given to the BSCR – with respect to select schedules that have control checks linked to the SFS or had metrics that will not necessarily align with the proposed SFS forms (e.g., Schedule IV Premiums Written by Line of Business).

BMA Response:

Adoption of IFRS 17 will not result in changes to the Authority’s economic valuation framework – EBS, eligible capital rules or the Enhanced Capital Requirement (ECR). 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 valuation 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 align with international standards.

The Authority confirms the BSCR model will now have a new field in which insurers are able to confirm if the statutory financial statements were prepared on a GAAP basis or IFRS basis. Based on the response provided, the BSCR model schedules and/or control checks will link to the applicable form for validation.

2. Net presentation of (Re)insurance contract balances on the Balance Sheet

Feedback Received:

Stakeholders sought to confirm if the Authority would be amenable to the net presentation of insurance and reinsurance contract assets and liabilities on the balance sheet. For example, several stakeholders sought clarification on whether it would be acceptable to report negative assets on Line 11(a) and (b) (Insurance and Reinsurance Contract Assets) of Form 1 SFS.

BMA Response:

The Authority confirms that the presentation of insurance and reinsurance contract balances on the balance sheet is on a gross basis. In this regard, insurance and reinsurance contract balances in a positive position are to be reported on the assets section of the balance sheet in the appropriate line; on the other hand, if the results are negative, then they are to be reported in the appropriate line on the liability section of the balance sheet.

3. Disclosure notes, including the required supplementary disclosures

Feedback Received:

Stakeholders requested clarity on the subject of disclosure notes and if they will be required on a consolidated or unconsolidated basis, or both. Further questions were raised regarding the basis on which the additional/supplementary disclosure notes are to be reported.

BMA Response:

The Authority confirms that all the disclosure notes, with the exception of the supplementary notes to the statement of income or loss, must be reported on an unconsolidated basis. The Supplementary notes to the statement of income or loss will be required on both an unconsolidated and consolidated basis. The notes will be clearly marked as such in the templates.

The supplementary/additional disclosure information is required to facilitate prudential reviews and analysis, class of registration migration assessments and/or generate the market statistics published on the Authority's website and within its Annual Report. For consistency and comparability with other insurers in the Bermuda market, the Authority would like to confirm that the supplementary/additional note disclosures are to be reported as previously done (i.e., on an IFRS 4 valuation basis).

4. Liquidity Ratio calculation

Feedback Received:

Stakeholders provided feedback proposing that the Authority amend the relevant assets and relevant liability calculation to be consistent with that currently being used by all insurers. The stakeholders noted that this will not only ensure consistency in the computation of the ratio but also enhance comparability amongst the Insurers.

BMA Response:

The Authority would like to confirm that the liquidity ratio calculation has been amended accordingly. For contra assets balances that are part of insurance contract liability balances (e.g., premium receivables, funds held by ceding reinsurers and deferred acquisition costs), an adjustment

will be required to gross up the balances from the total liabilities balance whilst including those balances as part of relevant assets.

5. Timelines

Feedback Received:

Stakeholders sought to clarify when the new proposed reporting forms for firms that have adopted and implemented IFRS 17 will be applicable and be due to the Authority.

BMA Response:

The Authority would like to confirm that the proposed IFRS based reporting forms will be applicable for the relevant year-end when the insurer first reports under IFRS 17. In this regard, given that IFRS 17 became effective 1 January 2023, for insurers who have a 31 December year-end and are preparing their first full year IFRS 17 financial statements as of 31 December 2023, the annual regulatory reporting based on the proposed new forms will be due to the Authority by 30 April 2024.

The Authority will imminently publish the amendments to the Insurance Accounts Rules and the impacted schedules, which will contain the updated format of the IFRS-based SFS, instructions and guidance for the relevant line items.

The Authority thanks the stakeholders for their feedback and remains committed to working with stakeholders and other interested parties to ensure sound and prudent outcomes are achieved. Any stakeholder who needs further clarification or additional information on any of these matters should contact the Authority directly at riskanalytics@bma.bm.

Sincerely,

The Bermuda Monetary Authority.