



24 January 2024

NOTICE

Bermuda Long-term Insurance Market Analysis and Stress Testing Report

On 8 December 2022, the Bermuda Monetary Authority (Authority or BMA) published a Notice informing stakeholders about targeted enhancements to Bermuda's regulatory and supervisory regime for commercial insurers that primarily focused on long-term (life and annuity) insurers¹. The Authority has since performed several supervisory and regulatory measures and changes, including but not limited to:

1. Prior approval of all long-term block reinsurance transactions;
2. Tailored asset reporting;
3. Enhancements to the calculation of the technical provisions (in particular to the scenario-based approach), Bermuda Solvency Capital Requirement (BSCR) computation (specifically the lapse and expense capital charges) and the flexibility of the BSCR framework. Details of these enhancements can be found on the associated final version of the consultation paper² and stakeholder letter³. The changes will come into force on 31 March 2024; and
4. An educational paper on the supervision and regulation of Private Equity (PE) Insurers in Bermuda⁴.

The referenced enhancements spanned across all three pillars of our regulatory regime (i.e., quantitative requirements, qualitative requirements and supervisory process, reporting requirements and public disclosure requirements. As an important part of the enhancements to the referred Notice, this report will provide more detailed information on the long-term market to improve good governance, risk management practices, transparency and market discipline.

The report provides an overview of Bermuda's long-term insurance sector and analyses stress testing results. It highlights, from a macroprudential viewpoint, the market characteristics of Bermuda's commercial long-term insurance sector. Assessing the sector's key market

¹ [Consultation Papers template \(bma.bm\)](#)

² <https://www.bma.bm/viewPDF/documents/2023-04-12-14-51-37-Consultation-Paper---Proposed-Enhancements-to-the-Regulatory-Regime-and-Fees-for-Commercial-Insurers.pdf>

³ [Explanatory Memorandum \(bma.bm\)](#)

⁴ [2023-12-18-19-22-35-Supervision-and-Regulation-of-Private-Equity-Insurers.pdf \(bma.bm\)](#)

developments and stress testing analysis at a macro-level is fundamental to the BMA's overall supervisory framework. Furthermore, the stress testing allows the Authority to evaluate insurers' capital adequacy under adverse financial market conditions.

In 2022, the Bermuda long-term sector experienced a modest growth in assets (2.2% increase) and a slight decline in gross written premium (-1.1%). As of year-end 2022, approximately two-thirds of the business is related to longevity and financial business and the remaining business is related to mortality and critical illness. The United States accounted for more than 60% of Bermuda's long-term insurers' reserves, followed by Asia; European business (including the UK) represented less than 5% of the insurance reserves.

The largest allocation for the sector was in corporate bonds, representing 55.7% of total investments as of year-end 2022. Fixed-income securities with an investment-grade rating made up 77.3% of total investments. Securities with sub-investment grade ratings made up 3.8% of total investments, 9.3% of total investments were unrated and 9.6% of total investments were in the non-fixed-income class.

The sector had a robust solvency position, with a median solvency ratio of 261% at year-end 2022. This allowed the sector to absorb the impacts of a number of adverse financial market stress tests, demonstrating the sector's overall financial resilience as shown in the report.

The BMA also conducted a pilot study to obtain a view of the different sources of liquidity in the Bermuda market and how companies were using them. The study showed that cash and cash equivalents were a common source of liquidity across most companies, together with investment-grade fixed-income assets, of which most were sovereigns and corporates. The study also revealed that insurers took a wide variety of approaches to managing liquidity risk. While the BMA's pilot liquidity stress test was still being developed and remained open for further refinements, all participating companies showed adequate liquidity under the stress testing scenario.

Future reports will build on the data and exhibits presented in this inaugural report, including, but not limited to:

- The addition of future reporting years providing more years of comparison
- Incorporating additional or new data from Bermuda Capital and Solvency Return enhancements, where possible
- Providing additional insights into asset holdings
- Providing additional insights into the stress test results
- Including quantitative data on the new liquidity stress test scenarios
- Considering new or enhanced stress test scenarios

The BMA will continue to utilise macroprudential analysis to expand its understanding of Bermuda's long-term insurance market trends and looks forward to publicly sharing its learnings.

The Bermuda Long-term Insurance Market Analysis and Stress Testing Report has been published and can be found on the BMA website: <https://www.bma.bm/publications/bma-surveys>.