BMA

BERMUDA MONETARY AUTHORITY

Bermuda's Insurance Solvency Framework

The Roadmap to Mutual Recognition

March 2009

Executive Summary

The Bermuda Monetary Authority (BMA) is continuing its programme of regulatory change for the Bermuda market place. Our overall objective remains to operate a risk-based regulatory regime that meets or exceeds international standards, is proportional reflecting the differing constituents in our market, and is recognised as equivalent by other leading regulators around the globe.

Our programme of change has been underway for some time and much has been achieved to date. Considerable work remains to be done, however, in particular as the global regulatory environment is subject to development on many levels.

The purpose of this document is to highlight our progress to date as well as inform as to what further change lies ahead. The changes to come will relate to both the requirements on firms as well as changes to the BMA's internal policies and practices. Some of this will require more work by firms, but we are working hard to ensure that the regime remains pragmatic whilst recognising the characteristics and risks inherent in the Bermuda market. There are fundamental challenges in a number of areas, and we highlight significant components in the following sections. Considerable effort will continue to be required from both the BMA and the market to ensure we achieve our objectives.

We remain convinced that having a risk-based regulatory regime that is regarded as equivalent by other regulators will bring significant benefits to the Bermuda market. Equivalence brings many rewards, including:

- The ability to compete in global markets on a non-discriminatory basis
- Minimising the risk of multiple capital requirements
- Removing the need for group solvency calculations on a number of different regulatory bases
- Improved ability to optimise group capital and increased fungibility thereof.

Given the stage of development of various overseas regimes, we are concentrating our efforts on achieving Solvency II equivalence, but we are monitoring developments in other regimes and in particular aim to ensure equivalence under the US Reinsurance Modernisation Initiative. We are active within the IAIS and are continuing dialogue with other regulators such as the UK Financial Services Authority (FSA), US National Association of Insurance Commissioners (NAIC) and Swiss Financial Market Supervisory Authority (FINMA). Clearly these regimes are themselves developing and so it is important to be realistic about timelines involved. Many of the areas covered in this communication will be phased over a number of years – for example, in the area of disclosure, we currently plan to adopt a multi-phased approach recognising that enhancements in international standards are due to take place over an extended time frame. We are therefore assessing both public and private disclosure in line with the development of the rest of our regime.

Notwithstanding the need to recognise variances between market constituents, and hence be mindful of proportionality, the regime we are seeking to create has three core components:

- **Capital Adequacy** – We envisage a capital adequacy regime whereby capital requirements have regard to all aspects of risk, including group risk, and take into account the quality of capital supporting the business
- **Governance and Risk Management** – A risk-based capital regime necessarily requires a strong system of governance and risk management reflecting the integration of risk and capital management
- **Disclosure** - Transparency and disclosure on the part of both the regulator and the firms and groups it supervises are the hallmarks of an effective, well functioning regulatory regime.

The following sections outline in more detail our proposed approach to the key elements of our future regulatory regime, and identify areas where we will seek market input. Most of these elements are inter-connected and we have developed a detailed programme plan to ensure interdependencies are managed in a systematic manner. In addition to the areas detailed below, we will be enhancing our authorisation, supervision and enforcement frameworks.

This paper is structured into seven sections:

- **Scope** – This sets out our commitment to ensuring we operate an appropriate regulatory regime across the whole of the Bermuda market place, and sets out our plans for implementing proportionate regulatory change for the various classes of insurer;
- **Economic Balance Sheet** – This section discusses the potential impact on our regime of wider international regulatory and accounting developments, and how we propose to incorporate this as we develop our approach;
- **Capital Adequacy** – This sets out our proposals for introducing tiered eligible capital requirements reflecting the quality of capital, for demonstrating that the Bermuda Solvency Capital Requirement (BSCR) is equivalent to Solvency II's solvency capital requirement (SCR), introducing the ability in some cases for firms to use their own internal models to set their capital requirement and introducing a requirement for firms to prepare an Own Risk and Solvency Assessment (ORSA);
- **Governance and Internal Control** – This section highlights the work we have done and are continuing to do to enhance our Minimum Criteria and Code of Conduct, and it outlines the areas we believe are in need of development, in particular relating to groups and prudent person investment principles;
- **Disclosure** – This section sets out the work that has been done to date, including the work of the Transparency Task Force to consider approaches for additional disclosure. We discuss our proposed overall approach to enhancing our disclosure requirements and proposals for phasing the timing of these;
- **Groups** – This section sets out how we propose to apply our regime to groups, in particular to request further information from firms as regards existing group exposures, and our intentions to introduce a group solvency capital requirement;
- **Long-Term Business** – So far our work has largely focused on the general insurance sector and developing the wider regulatory framework. This section considers how we propose to develop those areas that are specific to long-term insurers.

This is an appropriate point to recognise the market and our advisors for their input to date and we look forward to their continued support. Significant commitment has already been demonstrated in a number of areas (for example, testing of the BSCR model and a working group on disclosures). We will need more market input going forward, in particular we encourage all participants in the market to provide feedback on our discussion and consultation papers. We thank you in advance for your continued contribution.

Scope

The development of our framework will impact each class of insurer (both general insurers and long-term insurers), however our overarching aim is to ensure that the final regime is reflective of the regulatory risk presented by the various classes of licence holder. In particular, we continue to recognise the significantly different risks inherent in the commercial and captive sectors. In doing so, we will have an eye on the proportionality principles that underlie a number of overseas regimes, including Solvency II. Consistent with this approach we subdivided the Class 3 sector into Class 3, Class 3A and Class 3B licences recognising the disparate nature of these firms and hence the different risks posed by the sub classes.

Our highest standards of regulation will be directed to the Class 4 and 3B sectors. Changes already implemented to the Class 4 sector include our standard risk-based capital model (BSCR) and filing of public GAAP financial statements. Incentive for the implementation of appropriate risk and governance has been introduced through our Commercial Insurer Risk Assessment framework where an Operational Risk Charge is assigned to the standard capital model in accordance with the quality of an insurer's risk management and governance. Risk and governance requirements will be implemented through our Code of Conduct, although more will be required here as other areas of our regime develop (e.g. in relation to own models).

Our overall approach will be to apply our standards proportionately across the Class 3B and Class 3A sectors. Generally we expect implementation for the class 3B sector to be one year after Class 4 implementation, and implementation for the Class 3A sector to be a year after 3Bs.

At the current time we consider the regime we operate for captives to be appropriate for the risks inherent in that sector. Further, we continue to believe that our regime is consistent with global regulatory standards for captives. However, given the importance of the captive sector to Bermuda, it is vital in light of developing international standards that we continue to monitor this area so that we are in a position to proactively manage the scope and nature of change required. We propose in due course to undertake an analysis of our existing regime for captives and to benchmark this against existing and developing international regulatory practices when these are clearer. We are committed to working with the captive market to achieve the right result for Bermuda, and will ensure robust application of the proportionality principles to ensure an appropriately measured response.

So far the developments in our regime have been focussed on the general insurance sector and ensuring that our wider regulatory framework is compatible with international principles. We do however recognise the need to address the long term insurance sector and will issue a discussion paper outlining the framework for future long-term regulation in the fourth quarter of 2009.

Economic Balance Sheet

International practice in both accounting and regulation is moving towards an economic assessment of an entity's financial position. This is not unique to the regulated industries, with the International Accounting Standards Board (IASB) requiring all entities to include their financial assets and liabilities on a fair value basis. In the USA, the Financial Accounting Standards Board (FASB) is considering the extent of harmonisation of its requirements with those of the IASB. It is therefore likely that insurers will need to develop an economic balance sheet at some point for accounting purposes, irrespective of any regulatory changes we introduce.

In line with these wider international developments, Solvency II considers the concept of the economic balance sheet as integral to the proposed risk-based capital regime. This approach requires both assets and liabilities to be valued on a fair value, market consistent basis. By valuing assets and liabilities consistently in this way, there will be no implicit margins in the determination of financial resources available.

It is important to recognise that an economic balance sheet may not necessarily be the same as fair value, but implicit prudence in either assets or liabilities should be appropriately determined to assist with the assessment of a firm's/group's ongoing financial strength. For the Bermudian market this raises questions on how we should consider the nature and form of reporting and disclosure required, and indeed, fuels a debate as to whether to retain existing or revised statutory versus GAAP or IRFS reporting.

This is a complex and widely debated area and we recognise the need to engage with the market sooner, rather than later, to discuss the implications of an economic balance sheet and the impact that this could have upon the market. In particular we will explore how an economic balance sheet reporting could align with and/or leverage from existing financial reporting (e.g. GAAP or IFRS reporting with adjustments) and how proportionality principles will be applied. We recognise that any significant change in this area will require careful planning and potential changes to reporting systems by firms, so while we will open discussions with the market on the topic of economic balance sheet in 2009, we propose to defer implementation until the latter stages of our equivalence programme.

Key milestones

• Establish working group	Q2 2009
• Discussion Paper	Q2 2010
• Implementation	2012

Capital Adequacy

Capital adequacy is one of the primary drivers of any regulatory regime. All regulators seek to ensure that the firms and groups they supervise hold sufficient capital of an appropriate nature. In order to properly assess the level of capital required, there must be a strong link to the risks being run by an organisation.

Our standard capital model (BSCR) has been developed and calibrated to recognise elements that are unique to the Bermuda market (for example the heavy property catastrophe exposures and high proportion of reinsurance business). We have also implemented stress-testing requirements including:

- Realistic disaster scenarios, both man-made and natural catastrophes
- Severe shocks to the financial markets
- Impact of rating down-grades on liquidity and capital adequacy, and
- Company specific loss simulations and worst-case scenarios

Determining adequate capital requires firms to properly identify, assess, manage and measure their risks. Further, supervisors must both understand the risk management systems and processes used by the firm and effectively challenge both models and assumptions, including the use made of these models within an organisation. Where we identify weaknesses that we consider are not appropriately addressed, the BMA has the power to require the firm to hold additional capital to help mitigate the perceived weaknesses.

With our standard models process in place for the Class 4 sector we will be focusing our efforts on the following areas, being the core components of an equivalent capital adequacy regime. The actual detail of the requirements will vary across different classes of insurer in accordance with the general principle of proportionality.

- Determination of eligible capital requirements (based on an economic assessment of the assets and liabilities of the firm)
- Requirements relating to quantum of capital required (to be assessed using either a standard model (BSCR) or pre-approved internal capital model)
- Requirements relating to the need for firms to demonstrate clearly the link between their capital model, risk governance and decision making (this will be effected through the Own Risk Solvency Assessment (ORSA) proposals)

These are covered further below. Clearly, we will develop our own authorisation, supervisory processes and enforcement actions around these.

Eligible Capital

There are a number of elements that need to be brought into the eligible capital (or Own Funds using Solvency II's terminology) rules. We will be developing rules regarding the following:

- **Classification Criteria** – This will include tiered capital requirements. Capital elements that are less certain to crystallise or have lower loss absorbency characteristics will only be available to cover capital requirements to a limited extent. We will therefore be developing rules regarding coverage of policyholder liabilities and various capital requirements. We recognize that there are many different capital instruments in use in our market and will be conducting a desktop survey as part of our policy development.
- **Off Balance Sheet Items** – We will continue to consider off balance sheet items (e.g. Letters of Credit, contingent capital) as sources of regulatory capital, to differing extents. We already have in place within our regime an approval process for off balance sheet items and will review this in line with developments in classification criteria.
- **Economic Balance Sheet** – We have highlighted above the importance of an economic balance sheet in underpinning the regime, and we believe there is a need for the starting point for capital to be based on an economic view of the balance sheet.
- **Own Risk and Solvency Assessment (ORSA)** - Given our desire to see capital assessment for regulatory purposes harmonised with management's own assessment of its capital needs, we will be linking the requirements in this area with the requirements we are developing in relation to the ORSA.
- **Transitional Requirements** – We fully recognise that capital management can be a time consuming and expensive process. As part of the development of the eligible capital requirements we will also consider whether any transitional requirements are required, and if so, the nature of these.

We need to ensure that the capital rules we develop are not unduly burdensome on the market, whilst ensuring they meet the aim of policyholder protection. Our aim is to ensure minimal disruption to firms. As such, we will be asking for market participation in a number of areas as we develop our regime in this area, particularly in relation to the tiering of capital and the potential use of an economic balance sheet.

Key milestones

- Consultation Paper Q3 2009
- Implementation and transition 2011 at the latest

Standard Capital Model

The BSCR is a model that addresses the key risks of a 'typical' Bermuda insurer. A standard model also offers a more cost effective approach over an own models approach for firms with a relatively lower risk profile. Development of a standard model also sets a benchmark for assessment of internal models.

Significant work has already been undertaken in this area, with the roll out of the BSCR model to Class 4 insurers last year, and its future roll out to the Class 3B sector. Class 4 insurers submitted their first BSCR submissions at the end of 2008. Our review of and validation of the results of these submissions remains a priority area and we will consider whether the responses indicate the need for refinements to the calibrations.

We will consider the need for a model to enable us to provide consistency of approach across all market participants, but on a proportionate basis.

Clearly, the BSCR model has been designed for the Property and Casualty market, and we will be developing a standard model for the long-term sector as a key part of the development of our regime in that area.

Our work on standard models to date has been focussed at the solo level. We will also be developing a groups standard capital model as a component of our groups supervisory regime.

Key milestones

- BSCR Test Submissions 2008 ✔
- BSCR Class 4 2009 ✔
- BSCR Class 3B Test Submission 2010*
  Implementation 2011*
- Modified BSCR Class 3A by 2012

**April 2010 submission for year ending 2009; April 2011 submission for year ending 2010*

Quantitative Impact Studies (QIS)

As we work to develop all aspects of the BSCR, we will need continued market participation to help us ensure we get an appropriate calibration. This will take several forms, but is likely to include a pilot exercise over this summer/autumn: a full Quantitative Impact Study (QIS) in the first half of 2010 using solo legal-entity calculations: followed by a QIS in the first half of 2011 using group solvency calculations based on our groups proposals.

As part of the equivalence assessment against Solvency II, we will need to be able to demonstrate that the BSCR generates an equivalent level of required capital to Solvency II's Solvency Capital Requirement (SCR). We will therefore also be asking some firms to complete a Solvency II QIS 4 exercise (or a later QIS if applicable), to help us demonstrate equivalence. Similarly, other firms may be asked to complete an NAIC basis calculation. Whilst we appreciate that this will require additional effort for firms, we will be encouraging as broad participation as possible to ensure a valid data sample to support our case for equivalence.

Key milestones

- Solo QIS 2010
- Groups QIS 2011

Capital Add-Ons

We already have a statutory power to enforce capital add-ons. We believe it will be helpful to give greater clarity regarding when we would be likely to use this power, and to disclose our policy in this area, in the spirit of transparency. Further, as our regime develops, for example as we introduce internal models and the ORSA regime, we will be developing our policy in relation to capital add-ons.

Internal Models

A standard model, by its very nature can only represent a proxy to a firm's specific risk profile. Where a company has sophisticated internal capital models that are fully embedded with its risk management system, these models are more likely to be used in the business to drive key decisions. If management can demonstrate the robustness of the models, that they fully understand the models' capabilities and limitations, and can demonstrate to us that they actively use them within the business, then it is more appropriate for us to similarly place reliance on these models. Effectively, the use of a firm's internal model means greater convergence between business risks and capital assessment for the firm, and greater harmonisation of business needs and supervisory oversight.

Clearly if we are to rely on a firm's internal model, then we need to assess both the adequacy of its design and calibration, the governance structure surrounding it and understand the extent to which it is used within the business. This will require us to build a set of model pre-approval criteria, and we will look to emerging best practice (such as Solvency II and IAIS pronouncements) in designing our criteria. One of the criteria that will be critical to this is that firms will be required to demonstrate significant evidence of its use within the business, including not only strategic decisions, but also links to areas such as underwriting and risk mitigation strategies. We will also look closely for evidence of clear documentation, good data quality and a prudent approach to recognition of diversification.

We will require firms determining their capital requirement on an internal model basis to calculate the standard model requirement for two reporting periods prior to approval. We will retain the right to establish a capital floor, based on BSCR, on a case-by-case basis. This will help us to verify that the model is working in the way envisaged.

We recognise sophisticated models are used extensively throughout the Class 4 and 3B sectors, particularly those writing property catastrophe risks. We received an excellent response from our 2008 market survey and continue to have dialogue with the market on the use and application of models in their businesses. We are aware that many firms already have sophisticated underwriting models; however the capital models will need to be much wider than this. Capital models have been the subject of much attention of late as a result of the global financial crisis. As we develop our models regime, we will have regard to the lessons learned and weaknesses identified which will inform our approach.

As we develop our model approval criteria we will share this with the market. We will ask some firms to volunteer to field test the approval process, which will help us refine our supervisory processes, as well as highlight to the firms involved where our areas of scrutiny are likely to lie.

There will be close links between our work in this area and work relating to the ORSA requirements and risk and governance.

Much has already been achieved in the development of our proposed framework and market participation has been good to date. In addition, we plan to have our proposed review process independently validated. Primary legislation permitting own models is in place and we will be publishing our Standards and Applications framework in the second quarter of 2009. Initial applications from the Class 4 sector will be possible after that. As noted above, final approval will not be granted until two reporting periods are completed.

Key milestones

- Standards and Applications Q2 2009
- Own Models (class 3B) 2011
- Own Models (class 3A) 2012

Own Risk and Solvency Assessment (ORSA)

Irrespective of whether a firm determines its regulatory capital requirements on a standard or internal model, it needs to have a process for the regular assessment of the capital it believes it needs to support its business, taking full account of the risks to which it is exposed. The Own Risk & Solvency Assessment (ORSA) is an insurer's own overall assessment of its capital needs, based on all of the current and prospective risks it faces, determined by reference to the entirety of its risk processes and procedures, and having regard to its business strategy and plan.

The ORSA may differ to the capital requirement under a standard or internal model, perhaps due to the consideration of additional risks, or a desire to operate at a different confidence level to achieve a particular rating. Clearly however, where a firm uses a full internal model to determine its regulatory capital requirements, there will be a very strong link to that model. For firms using the standard capital model approach, the ORSA will reflect how the firm links the standard model to its decision making process. The ORSA must be performed at least annually.

The ORSA is critical to the supervisory review process, being the mechanism through which a firm demonstrates to us its belief in, and use of, whatever capital model is used in the business (known as the "use test"). By its very nature it is an integral part of the firm's approach to capital management and links strongly to the disclosures it makes to the market.

On implementation we will conduct an initial review and thereafter we will incorporate our ORSA review into our on-site programme, and in addition to the use test, we will be looking to undertake a qualitative assessment of the effectiveness of the firm's governance and risk management, and a quantitative analysis of its methodologies for quantifying risks. We expect firms to have in place adequate documentation to support the robustness of the ORSA and demonstrate strong links between risk assessment, governance and capital. Weaknesses in the ORSA will give rise to the potential for a capital add-on.

The ORSA regime under Solvency II is still developing. For our part we will begin consulting on the ORSA process during the third quarter of this year with a view to implementing a Bermuda ORSA regime during 2011. A proportionate approach will be taken to the application of an ORSA regime across the various classes of firm.

Key milestones

• Consultation Paper	Q3 2009
• Implementation	2011

Governance Arrangements and Internal Control

A strong governance structure and culture is an absolute necessity for a well-run, risk sensitive organisation. Further, the effectiveness of the governance, risk and control framework has implications for capital adequacy.

The Minimum Criteria and Guidance Notes in our current regulatory framework are well developed and establish our expectations of firms in their approach to risk management and governance. These clearly allow for proportionality depending on the nature of the firm's operations.

There are a number of other elements to risk management that we believe are important to have in place, but again we will leave it to individual organisations to determine how best to structure this. These relate to an actuarial function, internal audit function and compliance. It will be important that firms consider how these different roles should fit together, but the key overriding aim is to ensure that the business is appropriately run and controlled, to minimise the likelihood of unexpected risks crystallising. Where firms are part of a group, we will consider the relationship and overlap between group and solo functions, and will seek to leverage effective group and centralised functions into the solo model.

In terms of future developments in this area, we will develop governance expectations around own models. In addition, we will incorporate prudent person investment principles into our Code of Conduct. These principles will not prescribe investment criteria but will place an obligation on firms to consider and understand the underlying risks of assets held. The aim of these principles is to ensure that the investment decisions are made in the best interest of the policyholder and that the firm is able to properly monitor, manage and control the risks in the portfolio as a whole.

Key milestones

- Consultation Paper Q3 2009
- Code of Conduct Implementation 2010

Disclosure

Transparency and disclosure are critical elements of a well functioning regulatory regime. These principles apply equally to the market and the regulator. As well as the work already done, as we develop and enhance our regime, we will continue our dialogue with other regulators, both to share our insights and update our approach. Clearly, transparency and regulatory cooperation is fundamental to achieving equivalence.

From a market perspective, the Class 4 sector is now required to produce publicly available GAAP financial statements. Similar requirements will be instituted for Class 3B firms for 2010.

In late 2008 we requested an industry Transparency Task Force to provide recommendations regarding the form and content of disclosures it believes the industry should provide, both to us as regulator and to the market at large. This analysis took account of what disclosures firms currently provide in financial and other regulatory reports. We are currently reviewing these recommendations to determine whether these will address our needs, particularly in light of the developments in the regulatory regime in other areas, and how best we are able to leverage from existing reporting obligations of firms. We will publish our views in a consultation paper in Q2 2009. We will introduce the disclosure requirements, to include both financial and qualitative risk and governance disclosure, in a phased manner. This will have regard to private (regulator only) and public disclosure, audited versus non-audited, solo versus group requirements as well periodic and ad-hoc requirements. Our phasing will also reflect that disclosure remains an area very much in development under Solvency II and will not be fully implemented until some years after the directive comes in force.

One topic that has received much debate over time has been the use of Bermuda Statutory Reporting versus GAAP reporting. We would like to open this topic for discussion in the near term with all constituents of the market. We are sensitive to differing views on this and also the relationship to the economic balance sheet discussion. Our ultimate goal is to have a readily understood and cost effective financial reporting base.

Along with developments under Solvency II and other regimes (such as IFRS), disclosure requirements will necessarily develop as other aspects of our regime are determined. We will also look to extend implementation timelines, and institute transition rules that are consistent with other regimes, to assist the market in its readiness to provide the information.

Key milestones

- Class 4 GAAP financial statements 2008 ✔
- Transparency Task Force recommendations 2008 ✔
- Consultation Paper Q2 2009
- Class 3B GAAP financial statements 2010
- Phased implementation Present- 2015

Groups

With the globalisation of financial markets, insurance groups have increased in both complexity and size. The well-publicised global events of recent months have shown that it can be difficult to completely isolate any entity from the risks associated with its group structure. We recognise that there are real risks that arise from being part of a group and that a significant number of Bermuda licensed insurers operate within a group structure.

As part of our on-site programme and advanced risk assessment process we already obtain certain information about group risks and controls as well as intra group exposures and concentrations. As we develop our regime we will look to obtain further data from firms, in the form of data requests, relating to shareholdings, financing arrangements, group guarantees and intra group transactions.

In addition to the data collection, we recognise the need for the development of a group-wide supervisory regime to enable us to form a comprehensive view of overall risk within a group, including a group solvency capital requirement; this will also require legislative change.

Our Discussion Paper published in the first quarter of 2009 describes our proposed framework for group supervision. This framework will incorporate the following:

- Group governance and risk management
- Group solvency – including capital models, intra-group transactions and risk considerations
- Treatment of non-financial entities and
- Group financial reporting

Much of the development of our groups regime will build on and follow from the development of our regime for solo entities, with most aspects of the solo regime also applicable at a group level.

One significant effort will be in the development of a group standard solvency capital model. We will consider the manner in which we need to amend the BSCR model in light of its application at a group level.

As a first step towards developing our approach, we will also ask firms to submit a group solvency assessment prepared by members of its group for any other purpose, such as the EU's Insurance Groups Directive calculation. This should be easy for firms to do, and whilst recognising the limitations of considering a number of different calculation bases, this will give us a first, high level, oversight of the Bermuda market position.

For our part, consistent with the IAIS, we regard supervisory co-operation and information exchange as one of the key elements of effective group-wide supervision. We currently have, within our legislative framework, the ability to share information with other supervisors. The BMA is also a signatory to a number of Memoranda of Understanding, and we are seeking to be part of the IAIS Multilateral Memorandum of Understanding. We have already hosted supervisory colleges in relation to our largest groups operating from Bermuda, and will continue this programme. We will also be considering the criteria to determine when we would be the group-wide supervisor and what cooperation we will require from other regulators.

We recognise that the proposals in this area could have a significant impact on parts of the Bermuda market. As in other respects, we will be aiming for a proportionate approach, but this will require market input. As well as the data requests outlined above, we will also be asking firms to volunteer to field test our group BSCR calibration, and will subsequently ask firms to participate in a group QIS exercise, looking at both the proposed group BSCR and an own model based group solvency assessment. We will also need to be in a position to demonstrate that our group BSCR is equivalent to the group SCR under Solvency II. As a first step we will be requesting firms who have undertaken groups field tests under Solvency II QIS exercises to provide us with a copy.

Key milestones

- Discussion Paper Q1 2009 ✔
- Supervisory Colleges Ongoing ✔
- Consultation Paper Q1 2010
- Information request due Q1 2010
- Legislation Q4 2010
- Implementation (phased) 2011 -2012

Long–Term Business

The Bermuda market is principally a general (re)insurance marketplace. However, there has been growth in the numbers of long-term reinsurers over the past few years. We therefore consider it an appropriate time to develop our supervisory regime for the long-term business sector. In this regard we will look to emerging best practice and consider this in the context of the Bermuda market. We have conducted a survey of activities and will use this baseline data in our development. There are a number of dual licence holders (i.e. general and long-term) in the Bermuda market. As we develop our regime we are minded to cease the practice of dual licensing but will grandfather existing companies. We will be issuing a Discussion Paper in the fourth quarter of 2009 outlining our proposed framework.

Key milestones

- Discussion Paper Q4 2009
- Consultation Paper 2010
- Implementation 2012

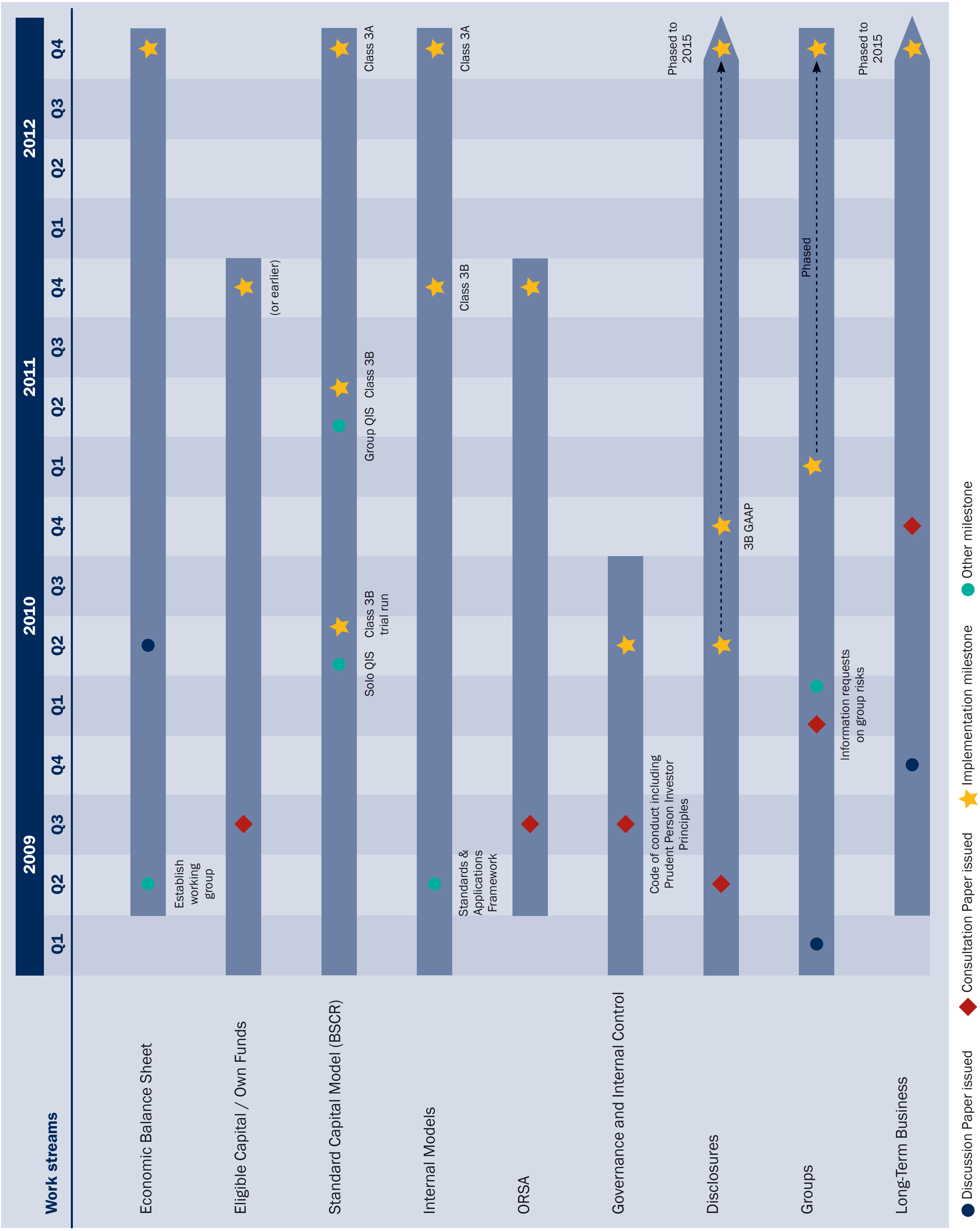
Conclusion

It is clear from this paper that we remain steadfast in our commitment to have in place a leading risk-based supervisory framework that recognises both the differing constituents of the Bermuda market as well as developing international regulatory standards. Much has been achieved to date, recognised in the recent International Monetary Fund (IMF) visit.

We have outlined the key milestones that lie ahead; achievement of these will only be possible with the continued support and engagement of the industry. We encourage firms to start preparing for this programme.

The work that the industry and the BMA have already done places Bermuda at the front of the pack of countries preparing for mutual recognition. However, as can be seen from this report, considerable work remains to be done. The BMA is determined to ensure that implementation of this programme should be achieved in a manner that demonstrates flexibility, adapts the emerging international regulatory framework to the characteristics of the Bermuda market, and adopts a risk-based and proportionate approach to the different classes of insurer operating in the Bermuda market.

Summary of BMA Programme Plan



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