

Bermuda Monetary Authority

Presentation to the
National Association of Insurance Commissioners
Reinsurance Task Force

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Bermuda Monetary Authority
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Bermuda Insurers

- Total active: 1,300
- Total Capital*: \$107 Billion
- Class 4 Total: 30
- Class 4 Capital: \$ 36 Billion
- Class 4 Summary:
 - 2% of companies
 - 34% of capital

*BMA 12/31/04 Data
Capital = capital and surplus

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Class 4 Market Impact

- Largest property cat reinsurance market
 - Supplies 40% of the reinsurance capacity to the US market
- Growing casualty market
- Important in large commercial risk market
- Diversifying reinsurance market
- Global players

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Worldwide Rankings

- AM Best top 35 reinsurers:*
 - Bermuda 15 of top 35
 - Europe 11 of top 35; US 4 of top 35
- Standard and Poor's reinsurer rankings:**
 - Bermuda 13 of the top 40
 - More than either Europe or the US
- Benfield top 20 P/C Reinsurers***
 - Bermuda 7 of the top 20
 - Tied with Europe for 7 of the top 20

A.M Best*2005 data; ** and *** 2004 data

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US Catastrophe Payments Bermuda Carriers*

- 2005 Hurricanes:
 - Estimated \$15 B payments
- 2004 Hurricanes:
 - Estimated \$4.5 B payments
- 2001 Terrorist attacks:
 - Estimated \$2 B payments

*2005 Drafting and Partners, Nov. AM Best reinsurance data - \$11 billion for Bermuda

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KYC and Risk-Based Regulatory Approach

- Rigorous "Know Your Customer" procedures
- Risk-based approach to regulation
- Framework in transition
- Higher levels of scrutiny for Class 4's:
 - Enhanced regulation
 - Additional layer of supervision

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Ongoing Legislative & Regime Review

- Legislation in place since 1978
- Continual review of legislation and regulatory regime against:
 - market risks
 - international standards, e.g. IAIS Core Principles
- Detailed, thorough licensing process

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Risk based Regulatory Approach

The Authority uses a risk based framework which is the mechanism by which we aim :

- Carry out the responsibilities placed on the Authority by various Acts in an effective and efficient manner
- Allocate supervisory resources to where risk is most pertinent
- Observe and adhere to international best practices while monitoring and responding to external developments, taking into consideration the nature of the Bermuda insurance market

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Risk-Based Framework

Through the risk based framework:

- Detect problems at an early stage, and take regulatory action on a timely basis
- If an insurer fails, the Risk Based Framework seeks to ensure that it either returns to compliance or its exit from the market is timely and efficiently managed

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Applying the Approach – Class 4’s

- Disciplined, risk-based approach to assessing company’s safety and soundness
- Enhanced monitoring that incorporates both desk based and on-site review for Class 4’s
- Coupled with a detailed composite risk assessment process
- Enables the Authority to understand:
 - Inherent risk in Class 4 company
 - How effectively company manages that risk
 - Potential impact of net risk on capital support for company

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Additional Regulation- Class 4’s

- Highest minimum capital requirements
- More stringent solvency margin requirements
- Disclosure of ceded reinsurance required
- Additional financial reporting tied to loss of capital
- Restrictions on large dividend distributions
- Affidavit required stating standards could still be met if capital is reduced

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Proposed Risk- Based Capital Regime

- Will result in enhanced Capital Adequacy Framework for Class 4 reinsurers
- Consistent with new/proposed international solvency standards, e.g.
 - EU Solvency II regime
 - UK Capital Assessment Standards
 - Proposed IAIS solvency standard

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IMF Review 2003

- Categorised Bermuda's capital adequacy and solvency rules as "observed"
- Noted solvency margin requirements as "stringent"
- However, Bermuda taking proactive steps to enhance solvency regulations even further

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Third-Party Reviews of Bermuda Regulation

- Bermuda has been reviewed by various independent bodies, e.g. OECD, KPMG, IMF
- Useful complement to our own internal reviews
- Overall regulatory approach has received general endorsement
- Bermuda's pre-existing legislation noted as having broad scope, incorporating same level of supervision for reinsurers and insurers
- Preparing for next IMF Review (Q2 - 2007)

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Regulatory Changes

- We had already identified many of the recommendations from the third-party reviews
- Regulatory changes were based on:
 - Our ongoing internal review process
 - Self assessment against IAIS standards

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Bermuda Regulatory Changes 2003 - 2006

- Enhanced Risk-Based Supervisory Model
 - Including on site supervisory regime for Class 4's
- Additional Insurance Act amendments
 - Further enhancements of standards and regulator powers
- Comprehensive Guidance Notes
 - To form the basis of codes of conduct that will be developed by end-2006

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Quality Regulation, Consistent Standards

- Bermuda supports promotion of quality regulation and consistent standards globally – no differentiation of standards based on location
- Common focus - effective risk-based supervision and regulatory regimes in ALL financial jurisdictions
- Regulatory assessments of companies - base on financial strength and security

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Regulatory Development -- Bermuda Support

- Bermuda is focused on quality business, effective regulation
- We support continued dialogue on regulatory development among relevant parties - in all our best interests
- Firmly committed to ongoing regulatory development to support Bermuda's success

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