

# **Regulatory and Supervisory Challenges in International Insurance Centres – Lesson from Bermuda**

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# Bermuda is a sophisticated market

- World's second largest insurance market
- Convergence of finance and insurance industries
- Innovative approaches to managing and monitoring risk
- About 140 actuaries, mostly involved in underwriting
- International regulatory standards

# Market Convergence

- Bermuda gives insurers access to alternative sources of capital, and investment markets access to insurance business
- Insurance is being packaged as an investment product, marketed internationally
- Need to ensure that national standards remain effective given convergence and that the standards of other markets are consistent with our own

“The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear. ... Central banks and governments have so far found no effective way to control, or even monitor, the risks posed by these contracts.”

Warren Buffet (2002)

# Sub-prime impact

- Main impact on liabilities
- D&O and E&O claims reported, losses expected to be between \$5 and \$15 billion
- Financial guaranty losses hard to determine – real or paper losses?
- Bermuda Monetary Authority has issued guidance to FG insurers for determining liabilities

"Fair value accounting, particularly for long-term complex instruments that do not trade in liquid markets, is illogical and destructive and should be re-examined immediately."

Matt Greenburg, MJR Capital

# Operational Capability

- Regulation and supervision is fulfilling and exciting work
- Global supply of good regulatory staff is limited
- “Psychic income” – it’s more than the money
- Learning and development part of a career package

# International Co-operation

- Co-operation between regulators on a unilateral, bilateral or multilateral basis
- Driven to a large extent by cross-border financial crime
- Bermuda is a signatory to IAIS MMOU and IOSCO MMOU
- Any jurisdiction/regulator that wishes to be regarded as credible and co-operative must set aside resources and time required to be part of such arrangements

"No-one believes the original assumptions anymore. It's like trying to replicate a fire insurance policy by dynamically increasing or decreasing your coverage as fire conditions wax and wane. One day, bam, your house is on fire, and you call for more coverage?"

John Seo, Fermat Capital