BERMUDA MONETARY AUTHORITY

CONSULTATION PAPER

PROPOSED FEE CHANGES FOR 2016

November 2015

BERMUDA MONETARY AUTHORITY
PROPOSED FEE CHANGES FOR 2016

Table of Contents

The financial services industry and other interested parties are invited to submit their views on the proposals set out in this paper. Comments should be sent to the Authority and addressed to policy@bma.bm no later than **20th** **November** 2015.

BERMUDA MONETARY AUTHORITY

PROPOSED FEE CHANGES FOR 2016

1. Introduction

1. The Bermuda Monetary Authority’s (Authority) mission is to protect and enhance Bermuda's reputation and position as a leading international financial centre. This includes positioning the Authority as a pragmatic, risk-based financial services regulator, and ensuring first and foremost that our insurance regulatory framework provides appropriate protection for policyholders. In line with this mission, the Authority continues to assign high priority, and resources, to key initiatives that directly impact Bermuda's global insurers.

2. If Bermuda is to remain successful, the Authority must remain fully engaged with a constantly changing global regulatory environment and will require adequate funding for such initiatives. As such, this paper sets out the Authority’s proposal for changing certain fees for 2016. The proposal for fee increases is limited to certain entities licensed under the Insurance Act (1978). Full details of the new fees proposed are set out in Annex 1 below.

2. Background

3. The Authority's commercial insurance regime is experiencing unprecedented success. The Authority’s efforts have resulted in Bermuda being selected as one of only seven jurisdictions to date to be awarded the US National Association of Insurance Commissioners' (NAIC) Qualified Jurisdiction status, and one of only two jurisdictions with a clean report from the European Insurance and Occupational Pensions Authority (EIOPA). Presently, Bermuda is at an advanced stage in the process of seeking full equivalence under the Solvency II Directive for all three articles relevant to third countries.

4. To sustain this success, however, the Authority is going to require additional funding. This will particularly be the case as it transitions from framework development to implementation, and is required to increasingly engage on international regulatory initiatives that will directly impact Bermuda’s financial industry.

5. The Authority is committed to running its affairs efficiently to help maintain Bermuda’s position and reputation as a leading international financial centre. The Authority is also committed to trying to reasonably align the fees with the required level of supervisory oversight.

6. Accordingly, the Authority has tightened its own fiscal belt, and since 2012, has reduced expenses by 9%; which is a substantial achievement given that inflation over the same period has averaged 2% per year. Further, to keep costs to a minimum, the Authority implements an efficient but effective supervisory staffing business model compared to other leading regulators. The strategy is to hire well-qualified and highly skilled staff while also working with advanced risk-based analytics. The Authority believes that this has been proven to be an effective model.

7. However, the impact of changing international global standards and the requirement to remain dynamic as a jurisdiction, mandate that the Authority must review its fee structure. This review will ensure that the Authority is able to meet the financial demands placed on it while simultaneously achieving its strategic objectives.

8. As a response to the global financial crisis that began in 2007, comprehensive reform to the global financial system's regulatory architecture has been underway. The establishment of the Financial Stability Board (FSB) in 2009, and the programme of reform agreed between the FSB and the G20 have brought about wide-ranging transformations, most of which are being implemented via international standard-setting bodies like the International Association of Insurance Supervisors (IAIS), the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions and the Financial Action Task Force (FATF).

9. The Authority is actively involved in the work of all these organisations, however, at the same time remains committed to continuing to function as an efficient and streamlined organisation - but there are limitations. After a detailed assessment, the Authority has determined that if it is to continue operating as a world-class regulator, it is going to need additional positions over the next two years. This will include senior executives with a mandate to both develop supervisory staff and augment the Authority's international affairs efforts.

10. Given the significance of the Bermuda (re)insurance market (and particularly because Bermuda is being recognised by both national and regional designations) there is an expectation that Bermuda will be more active in the work of international regulatory standard-setting, especially at the IAIS, FSB and FATF. It is also expected that the Authority maintain strong relationships with regional/national bodies like EIOPA and the NAIC. Consequentially, the Authority has decided to embark on a two-phased approach to fee increases – the first phase in 2016 and the second phase in 2017.

11. The Authority is acutely aware of the importance of implementing its insurance regime enhancements in 2016 in order to retain credibility and build trust with regulators and jurisdictions where Bermuda-based insurers conduct business. The Authority believes that this credibility will help to reduce the chances of Bermuda-based groups running into potential hurdles that would increase their regulatory compliance costs. Further, 2016 is also an important year for certain IAIS initiatives, like ComFrame's global Insurance Capital Standard (ICS) and Globally Systemic Important Insurers (G-SII) initiatives, which will also impact the local market.

12. Most important, and in light of the inherent cross-border nature of Bermuda's (re)insurance industry, the Authority will also need to take a more proactive stance in relation to assisting with solutions to global supervisory/regulatory challenges, and ensuring that new standards are appropriate for (re)insurers both in Bermuda and more widely.

13. There is also an expectation that the Authority will assist other jurisdictions to develop their frameworks (e.g. via training and technical assistance through international organisations like the Financial Stability Institute or the International Monetary Fund/World Bank), and build

stronger relations with jurisdictions where Bermuda-based companies and groups have a presence.

14. The sector-specific regulatory and supervisory pressure experienced by the Authority in respect to (re)insurance is compounded by the additional preparatory work required in relation to its enhanced supervisory and regulatory regime. In this respect, while most of the preparatory work has already been accomplished, additional resources in the Authority's supervision area is required in order to meet these higher supervisory expectations. In particular, there is a need for more senior and experienced staff. This directly impacts certain larger commercial insurers, i.e., Class 4 and Class 3B license-holders, and insurance groups.

15. The Authority is making enhancements to its insurance framework across the board and proposes that fee increases are addressed in two phases. Given the benefit to industry participants with global operations, particularly those with EU operations, in phase one the Authority is proposing additional 2016 funding from insurers in Classes 3B, Class 4 and insurance groups. In phase two, by early Q2-2016, the Authority's plan is to review and consult on a fee increase for the remaining classes of the insurance sector for implementation during 2017. The Authority's aim is to align fees with costs in terms of the supervisory work hours dedicated to the respective classes.

16. Recognising the Bermuda market's desire to remain competitive, the Authority proposes fee increases for 2016 which will be limited to the insurance sector. Based on 2014 gross written premiums, the Authority's proposal represents an annual business and registration fee increase for most Class 3B and Class 4 insurers of not more than $24,000. Existing insurance groups, based upon 2014 gross written premiums, will see a fee increase of approximately $20,000.

3. Fee Proposal – Fee increase for certain insurance license-holders

17. The proposed fee increases are based on the following factors:

- Increased training and development of the Authority's staff to ensure the effective implementation of new legislative provisions;
- Hiring more senior staff members with the knowledge and experience required to develop staff and effectively implement the enhanced supervisory and regulatory regime, and to represent Bermuda internationally, including serving in key roles on international standard-setting bodies;
- Increased IT capabilities to deliver the revised regulatory processes and facilitate proactive, forward-looking supervision; and
- Increased resources to ensure Bermuda is more fully engaged internationally with both standard-setting bodies and overseas regulators.

18. In addition to the changes to the fee amounts for Class 3B and Class 4 insurers and insurance groups, that will be made to the fourth Schedule of the Bermuda Monetary Authority Act 1969, the Authority is making a housekeeping amendment to clarify the fees to be paid by

Class 3As and the manner in which they are to be calculated. This change mirrors the approach taken for other classes to calculate their fees and reflects how the 3A fees are actually being calculated.

5. Conclusion

19. The Authority's proposed new fees have been designed to strike a sound balance between its need for additional financial resources and the ability of the regulated firms to absorb them. The proposed fees reflect the costs of supervision faced by the Authority, and the benefits derived by Bermuda based (re)insurers arising from the Authority's credible and globally-recognised regulatory regime.

20. The Authority has begun a detailed analysis of its methodology for determining the cost of supervision for the various sectors that it regulates. In this light, the Authority is exploring various approaches to prescribing fees that may not necessarily be a single fee, as is the case today, but may be adjusted according to the complexity of the business of the particular license-holder. This approach, which has been adopted by other jurisdictions, has the potential to provide a more rational, risk-based mechanism for determining fees.

21. Full details of all the fee changes proposed for 2016 are set out in **Annex 1**. If you have any comments on the proposals set out in this paper, please send them in writing, using the Summary Sheet for Consultation Comments provided, for the attention of:

Marcelo Ramella, Deputy Director, Policy & Research at: policy@bma.bm

***

Annex 1

BERMUDA MONETARY AUTHORITY
PROPOSED ANNUAL FEES AND RETURNS – EFFECTIVE 2016

Insurance Act 1978

(1) Registering as insurer –

(a) Class 3B insurer carrying on general business where gross premium written is expected to:

- not exceed $150 million	$209,502
- exceed $150 million but does not exceed $350 million	$232,800
- exceed $350 million but does not exceed $2 billion	$260,713
- exceed $2 billion but does not exceed $5 billion	$302,615
- exceed $5 billion	$370,000

(b) Class 4 insurer carrying on general business where gross premium written is expected to:

- not exceed $150 million	$209,502
- exceed $150 million but does not exceed $350 million	$232,800
- exceed $350 million but does not exceed $2 billion	$260,713
- exceed $2 billion but does not exceed $5 billion	$302,615
- exceed $5 billion	$370,000

Fees in respect of the above are due upon application

(2) Annual fee under section 14(2) payable by an insurer -

(a) Class 3B insurer carrying on general business where gross premium written in the year preceding the year of assessment :

- did not exceed $150 million	$209,502
- exceeded $150 million but does not exceed $350 million	$232,800
- exceeded $350 million but does not exceed $2 billion	$260,713
- exceeded $2 billion but does not exceed $5 billion	$302,615
- exceeded $5 billion	$370,000

(b) Class 4 insurer carrying on general business where gross premium written in the year preceding the year of assessment :

- did not exceed $150 million	$209,502
- exceeded $150 million but does not exceed $350 million	$232,800
- exceeded $350 million but does not exceed $2 billion	$260,713
- exceeded $2 billion but does not exceed $5 billion	$302,615
- exceeded $5 billion	$370,000

(3) Annual fee under Section 27B payable by the designated insurer for a group where gross premium written in the year preceding the year of assessment:

- did not exceed $5 billion	$174,585
- exceeded $5 billion but did not exceed $10 billion	$230,000
- exceeded $10 billion	$450,000

Annual fees in respect of the above are due on or before 31st March 2016