9th March 2018

Dear Stakeholders:

Re: Feedback on the 2016 Financial Condition Report (FCR) Filings and Guidance to the Market for 2017 Year-end filing.

This report outlines the Bermuda Monetary Authority's (BMA or the Authority) overall assessment of the first FCR publication in accordance with the requirements of the Insurance (Public Disclosure) Rules 2015 and Section 30 of Insurance (Group Supervision) Rules 2011 (collectively, the Rules). It should be noted that this Report does not intend to capture all issues identified regarding the FCRs nor address specific issues around the content of individual insurer or insurance group FCRs. Rather this report focuses on general key areas for improvement and sets the Authority's baseline expectation. These observations should be considered, together with any specific comments given by the respective supervisors to insurance groups and insurers (collectively referred to as Insurers).

Overall, the Authority is of the view that Insurers have reasonably complied with the Rules for the 2016 FCR submissions. However, there are a number of areas where improvement is warranted. We highlight below some general key themes to take note for the 2017 year-end filing:

1. Data Integrity

A number of FCRs fell short on *completeness*, *accuracy* and *consistency* of the information provided in the report. Some errors observed include incorrect licence information, omission of important details (such as discussion on technical provisions), outdated organisational charts, incorrect or inconsistent figures on premiums, Minimum Margin of Solvency (MMS), Enhanced Capital Requirement (ECR) ratios and eligible capital (e.g., including those instruments that have not been previously approved by the Authority), among others. A number of Insurers also failed to include the required sign off in the declaration section. While the Authority understands that this is the first time for Insurers to put the FCRs together, the Authority expects Insurers to enhance their internal review process going forward to address data integrity issues.

2. Group FCR

The Authority also noted that a number of insurance groups which obtained filing modification under Section 6C to include its member insurers in the group FCR, failed to consistently provide or distinguish specific information unique to each member insurer in scope. This includes quantitative information (particularly on business performance, capital management section and risk profile) as well as the key narratives required on those sections. The Authority expects these insurance groups to revisit their FCRs and ensure that the insurance group FCR in itself meets the separate disclosure requirement for the

member insurer included in its scope. The Authority would like to emphasize that Insurers are fully responsible in ensuring the accuracy of the numbers reported in the FCR before publication.

3. Cohesiveness

A number of FCRs, particularly for Insurers listed in the United States, appear to have leveraged off of the SEC filings to complete most parts of the FCR, particularly the Governance Structure and Risk Management sections. The Authority expects Insurers to be mindful while leveraging information from other reports for the purpose of completing the FCR sections, so that the report is not just a "data dump" of information from various sources. For instance in some US-listed Insurers, the BMA noted that the narratives focused only on US related issues and did not fully capture other key jurisdictions. Going forward, the Authority expects Insurers to customise and make their FCR documentation inclusive of all relevant jurisdictions so as to fully comply with the Bermuda requirement.

In addition, terms that are generally jurisdiction-specific such as "Code", "Act", "Law" or "Rules" mentioned in the FCR should be defined within the document to provide proper context for the readers. The FCR is expected to be a stand-alone report, therefore diligent efforts should be taken by companies to make the narrative complete in itself.

4. Big Picture and Readers' Perspective

In certain cases it appeared that Insurers felt bound by the wording of the requirements on each section, such that key facts and information were presented in isolation without describing the bigger picture. While this approach may still minimally meet the requirements of the Rules, as a best practice, the FCR should go beyond repeating the Rules or the Insurance Code of Conduct and instead specifically provide information on how the Insurers complied with each section's requirements. This is particularly applicable for management's description of the risk profile, risk management and solvency self-assessment process, including how the outcomes are linked to the current and prospective capital management policies. The Authority expects a more coherent and thoughtful preparation of the reports for next year's filing.

On the other hand, the Authority has noted that some Insurers proactively included an "Executive Summary" section that describe the purpose, the member insurer included in scope, interpretation of the results and conclusion by management. While an Executive Summary is not prescribed in the Rules, the Authority finds this useful and demonstrates an insurer's or insurance group's commitment to making the report more understandable to the readers. An executive summary also puts the appropriate context around the information provided in the report, thereby minimising the risk of confusion and misinterpretation by the readers. Nonetheless, proper context can be inserted in each section as appropriate, therefore not necessitating an actual Executive Summary section. The Authority leaves this to management's discretion.

To further provide specific guidance, the Authority has also outlined below some specific findings including the expectation on each section, to be considered for next year's filing.

1. **Source and measurement bases of all figures should be indicated in each section**, whether taken from the US SEC's 10k (GAAP), statutory basis or EBS.
2. **Comparable information** of all quantitative information is preferred to be disclosed for next year's filing.
3. Where applicable, the **valuation bases of assets and liabilities**, particularly where market prices are not available, **should be clearly disclosed in the document**.
4. **Performance of Investments** – A more detailed asset classification of investment is preferred, particularly for publicly-listed Insurers where this information is already publicly available. However, smaller, non-public Insurers may stick to primary asset classes (e.g. equities, fixed income bonds, mortgage-backed, hedge funds).
5. **Section iv (a) Solvency Valuation** – the requirement is to disclose the valuation basis for each asset class, not just the investment classes. This should therefore include accounts and premium receivables, real estate, derivative instruments, etc.
6. **Technical provisions disclosures** – some Insurers did not disclose the amount of the risk margin as well as the level of uncertainty in determining the value of technical provisions. This information is required to be disclosed.
7. **Capital Management section:**
    a. Providing incorrect information on the report must be avoided particularly on capital requirements (MMS and ECR numbers) as well as capital instruments that have not been approved by the Authority as eligible capital.
    b. Impact of stress testing on the ECR should be disclosed - outcome can be generic (e.g., whether the company is able to meet the requirement or not following the stress test).
    c. Some Insurers omitted disclosure on eligible capital management as it relates to business planning, including information on the Fungibility and Transferability of eligible capital to cover the ECR. This is required to be disclosed.
    d. Insurers can add some narratives to provide appropriate context on the solvency ratios, eligible capital levels and internal capital model disclosures, linking it to strategy and risk appetite, to prevent misinterpretation by readers and inappropriate comparison with peers.
8. **Subsequent events** – material changes relating to information provided in the FCR, should be disclosed. This includes, but is not limited to M&A activities.
9. **Remuneration policy on employees** was omitted by a number of Insurers. This is a required section and the Authority expects a brief description of the policy.
10. **Qualifications for senior executives are required to be disclosed**, not just the Board of directors.
11. **Centralised management at the insurance group level** – insurers that are part of an insurance group which employs centralised governance and risk management practices should provide a brief description of the insurance group's practices in preparing its stand-alone FCR.

Conclusion

The BMA's first supervisory experience in the application of Rules by the Insurers indicates the need for a more focused effort to improve the preparer's understanding of the purpose behind the legislation. Some Insurers used the report as a platform to showcase their governance and risk management strengths, while others viewed the FCR as just another document to complete for the purpose of regulatory compliance. The Authority

views the FCR requirement as an important component of its regulatory framework, to protect policyholders and maintain Bermuda's position as a leading international financial centre.

Should you have further questions, please send them to your usual BMA supervisory contact or to riskanalytics@bma.bm.