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Dear Industry Stakeholders,

RE: CONSULTATION PAPER ON THE ENHANCED REPORTING REQUIRMENTS FOR LIMITED PURPOSE INSURERS

The Bermuda Monetary Authority ("the Authority") wishes to thank industry stakeholders for providing comments on the above captioned consultation paper. The Authority remains committed to maintaining international regulatory standards and in doing so, we are committed to engaging our stakeholders so that we achieve our supervisory outcomes, as well as retain Bermuda's role as a key international insurance jurisdiction. In January 2012 the consultation paper on proposed enhancements to the reporting requirements for Limited purpose insurers was issued and a number of comments were received.

The Authority's responses to the key substantive comments that were received are outlined below.

Own Risk Assessment

Concerns were expressed that the own risk assessment was too onerous for limited purpose insurers to complete.

The Authority recognises that the proposed own risk assessment will have an operational impact on insurers and their respective service providers, particularly in year one. However, for most limited purpose insurers, this schedule will not change materially year over year and as a result insurers will simply need to confirm that there have not been any material changes since the last submission. The supervisory rationale for requiring limited purpose insurers to complete an own risk assessment is to have the directors of each insurer articulate on an annual basis their understanding of the nature, scale and complexity of the insurer's activities and its current and perspective risk profile as required by paragraph 53 of the Insurance Code of Conduct. In addition completion of an own risk assessment will assist the Authority in determining whether or not an insurer continues to be appropriately registered as a limited purpose insurer.

The Authority is mindful of the increased operational burden arising out of the proposed enhanced reporting requirements and as such is recommending a phased approach. Class 3 insurers will be the first class of insurer required to comply once the electronic platform is operational, with Class 1, Class 2, Class A, Class B and Special Purpose Insurers, required to comply the following year.

Qualitative vs. Quantitative Nature of the Own Risk Assessment

A question was raised about the qualitative nature of the own risk assessment versus having a detailed quantitative analysis.

Whilst the Authority is not necessarily requiring a detailed quantitative analysis be performed in connection with the Return, prudent management would dictate that such a quantitative analysis would be an integral part of the on-going administration and management of the insurer. Consistent with the requirement arising out of the Insurance Code of Conduct, the Authority requires that every insurer develop policies, processes and procedures to assess its material risks and determine the capital and the resources required to support its insurance undertakings on an annual basis. The minimum solvency margin ("MSM") as currently prescribed by the Insurance Act 1978 is the minimum capital requirement that a limited purpose insurer will need to maintain in order to avoid regulatory action. However, management should ensure that the insurer has sufficient resources to continue as a going concern, particularly for the twelve months immediately following the balance sheet date of the statutory submission and this may require holding capital in excess of MSM.

Underwriting by Geographic Origin

Concerns were expressed over the requirement to break down underwriting income by geographic region.

Please be advised that industry has provided this information through the Annual Market Survey on Captives ("Annual Captive Data Call") in prior years. The information collected by geographical origin has been and will continue to be used for regulatory and macroprudential purposes; particularly to fully understand the origins of risk written by Bermuda's limited purpose insurers. If an insurer finds it overly onerous to separate their global programmes by distinct geographic region, they will be allowed to report such programmes as global programmes.

Collateral Analysis

Respondents were of the view that it would be difficult to split collateral by lines of business as it is normally provided on a combination of lines.

Insurers will need to enter the "in force" collateral arrangements (actual funds held as security) in place based on individual lines of business or in the aggregate if such collateral arrangements are combined and cannot be segregated. This will include a breakdown of collateral supporting both direct and reinsurance business written and the actual funds securing that direct or reinsurance business whether that collateralised business is written as related, connected or unrelated.

Capital Calls

The Authority was asked to (1) clarify whether or not a non-binding letter of support from a parent or affiliate would qualify as a capital call and (2) to provide details of the types of arrangements that would fall under the definition of a capital call.

Non-binding letters of support, which will have to be approved by the Authority, will qualify as an appropriate capital call arrangement. Insurers are asked to list any arrangements in place, both approved and unapproved, which provide access to additional capital or resources. Other acceptable forms of capital call may include (but not limited to) the following:

- Dividend (in the case of subsidiaries);
- Letters of credit; (approval basis)
- Parental calls;
- Parental guarantees; (approval basis)
- Contingent capital (triggered during a loss);
- Calls on the owners (in the case of a mutual)

Statutory Return Declaration

Respondents expressed concern over having two Directors and the Principal Representative provide confirmation of the company's solvency for the next twelve months, as there may be unforeseen circumstances beyond the insurer's control that may impact its solvency position.

The Authority's acknowledges concerns regarding confirmation of solvency and intends to require that an insurer only make a confirmation based on the information available to the signatories at the time of signing. As such, the wording in the Statutory Return Declaration will be amended such that each paragraph will begin with, "We declare that to the best of our knowledge and belief……"

Permit Companies

A question was raised as to whether limited purpose insurers holding a modified filing Section 56 direction will need to file the Return.

The Consultation Paper's reference to insurers currently granted a Section 56 Direction, exempting the company from Section 15 to 18 requirements of the Insurance Act 1978 ("the Act') was in relation to those insurers incorporated in Bermuda, who have been relieved of filing requirements due to the fact that no insurance business was conducted during the reporting period. The Consultation Paper did not contemplate permit companies with modified reporting requirements.

In respect of permit companies having modified filing Directions, please be advised that the Authority will continue to accept the annual filings made with the regulator in the country of incorporation (i.e. there will be no immediate modification of the existing Section 56 Direction). However, going forward, the Authority will require written confirmation of the existence of similar reporting requirements (e.g. an annual own risk self-assessment) in the home jurisdiction. Should such similar requirement not exist, the

Authority may require the permit company to comply with enhanced reporting requirements on a proportional basis. This could include the submission of additional information not currently required by the existing Section 56 Direction. The exact nature of any additional reporting requirements will be dealt with on a case by case basis and in full consultation with the regulated institution.

Timelines For the Trial Run and Manual vs. Electronic Filing

A number of comments were received about the timing of the trial run and whether or not the new reporting requirements would have to be submitted manually in the event that the new electronic Return was not implemented.

As per paragraph 30 of the Consultation Paper, the Authority will conduct a trial run prior to formal implementation of the enhanced reporting requirements. The Authority will communicate the timing of the trial-run once the consultation process has been completed and all the details have been agreed and finalised internally. Additionally, the Authority will not require insurers to comply with the enhanced reporting requirements until the electronic reporting platform is operational.

Wet Signatures vs. Electronic Signatures

A question was asked as to whether the Authority will accept electronic signatures or require wet signatures.

The Authority will require insurers to print, sign, scan, and attach the statutory return declaration (consolidated sign-off page) to the electronic return. The index page of the electronic return includes an attachment icon which can be utilized to append the declaration.

Release of Statistics

Queries were raised about the Authority committing to the release of statistical information.

The Authority already has internal deadlines with respect to the production and release of statistics in connection with our public reporting commitments (annual report) which will remain in place. Once the electronic platform has been implemented and we have an opportunity to assess its functionality, we will commit to further discussion with industry stakeholders regarding revising the timetable for releasing of statistical information.

Duplication

Clarity was requested about not having to duplicate numbers in the schedules and the statements.

Each additional schedule which supports a line item in the statutory financial statements shall be linked to the said line item, i.e. insurers will only need to input such information once and the specific line item will be automatically updated.

Please be advised that in advance of formal implementation of the enhanced return, the Authority will be issuing formal guidance notes to assist insurers in complying with the new requirements.

Yours sincerely,

Shelby Weldon
Director
Insurance Department
Bermuda Monetary Authority