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Dear insurers,

Re: **<u>Consultation Paper (CP) on Disclosures and Transparency June 2010 Update ("Disclosures CP")</u>**

The Bermuda Monetary Authority ("the Authority") wishes to thank the stakeholders for their continued support of our key initiatives. Recently, the Authority published a Consultation Paper on CISSA and a number of comments were received. The Authority is committed to engaging our stakeholders in such initiatives as we strive to achieve our supervisory objectives, while retaining Bermuda's role as a key player in international fora.

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

a) ***<u>2010 reporting year Class 4 and 3B insurers: loss triangles disclosures</u>***

Clarification was requested on whether the Authority would allow insurers to file a reconciliation of net loss reserve balances for each statutory line of business as an alternative to loss triangles.

The Authority will allow insurers to file <u>either</u> the loss triangles or a reconciliation of their beginning and ending net loss reserve balances for each statutory line of business. The respective templates will be published on the Authority's website.

b) ***<u>Reporting templates</u>***

It was suggested that the Authority should include reporting templates together with the consultation papers for comments.

The Authority will endeavour to include these templates where standardised reporting is required. However, where insurers are required to submit information using their own formats, templates will <u>not</u> be provided. Examples would include the qualitative disclosures on investments and derivatives, underwriting performance, risk register, etc. In some cases, however, the Authority would communicate its expectation in relation to the minimum content of the qualitative disclosures, allowing insurers to expand on this.

c) ***2011 reporting year Class 4 and 3B insurers: public disclosures***

Clarity was requested on what items are proposed for public disclosures vs. regulatory disclosures .

The Authority has taken a phased approach towards the development of its enhanced disclosures. The Disclosures CP focuses on the first phase, which seeks to enhance the regulatory disclosures (with the exception of GAAP filing). The Authority continues to monitor international developments on public disclosures, particularly the related Insurance Core Principles work being developed by the International Association of Insurance Supervisors for 2011. The Authority plans to make more specific proposals in this regard next year.

d) ***2010 reporting year Class 4 and 3B insurers: underwriting performance disclosures***

Clarity was requested on the format and the qualitative information required for underwriting strategy disclosure.

The Authority will not prescribe at this time the format of the underwriting strategy submission. Insurers currently submit quantitative projections of net premiums written, underwriting profit or loss and net income or loss in accordance with the requirements of Schedule V of the Capital and Solvency Return. This quantitative submission will not change. The Disclosures CP expands on this requirement. Although the format is not prescribed, the Authority would envision the commentary to comprise a very high-level summary of the top one or two drivers behind the submitted underwriting projections. An example could be similar to the following: “The modest projected increase in net premiums for 2011 is mainly driven by a desire to expand X class of business in X region to take advantage of capacity shortages there, partially offset by anticipated rate softening across most other classes of business.”

e) ***2010 reporting year Class 4 and 3B insurers: investments and derivatives disclosures***

Clarity was requested on the Authority’s expectation with regards to disclosures on policies surrounding the use of derivatives.

This includes but is not limited to the strategy/parameters guiding the use of derivatives, types of derivatives allowed, limits imposed and constraints. The Authority does not propose to prescribe a format. Some insurers already communicate this to the Authority in their respective investment policies, which is acceptable.

f) ***2010 reporting year Class 4 and 3B insurers: group exposure where the Authority is not the Group-wide supervisor (GWS) disclosures***

Clarity was requested on the following:

- ***intra-group transactions: would these relate to transactions involving Bermuda regulated entities only***
- ***group statutory capital requirements and the process for identification of the GWS***

The Authority will only require disclosure of intra-group transactions relating to the Bermuda legal entity. Further, the determination of the group statutory capital requirement and group capital and surplus will depend on the methodology applied by the respective GWS of the insurer. The Authority proposes to amend the submission to group statutory capital requirement where the group has a GWS, or the most recently audited group shareholder equity. The processes and policies for identification of the GWS are addressed within the Authority’s CP on Insurance Groups Regulatory Framework issued in February 2010.

g) ***2011 reporting year Class 4 and 3B insurers: group exposure where the Authority is not the GWS disclosures***

Clarity was requested on the particulars and timing of quarterly financial statements.

The Authority requires insurers to submit quarterly unaudited financial statements for the 2011 year-end. These unaudited financial statements should be internal management financial statements. Accordingly, there is no prescribed format. The basis however should be disclosed (e.g. US GAAP, IFRS, other, etc.). The Authority will not require footnotes and additional analysis to accompany these statements, but the Authority would reserve the right to request additional information related to the accounts where it is deemed necessary.

h) ***Bermuda insurance groups reporting requirements: group structure disclosures***

Clarity was requested on whether the top 10 counterparty transactions relate to intra-group exposures or external exposures across the group.

The Authority proposes to require disclosure of the top 10 external exposures across the group.

i) ***Paragraph 46: formal board declarations***

The Authority was asked to clarify which disclosure requirements would require formal board approval.

All returns filed within the Capital and Solvency Return currently require a formal board declaration in accordance with Section 6A of the Insurance Prudential Standards (Class 4 Solvency Requirement) Order 2008 (2009 Consolidated). No change is anticipated.

j) ***Paragraph 63: catastrophe risk return (Cat Return) trial run filing***

Clarity was requested on whether the Cat Return trial run would be embedded within the 2010 filing documents.

The Cat Return trial run document will be embedded in the 2010 filing documents. However, the Authority proposes to extend the deadline to June 2011. Insurers wishing to avail themselves of this extension will be supplied with stand alone documents. The Authority will not require submission of the catastrophe information at year-end for which the Cat Return is intended to replace (i.e., exposure limits and probable maximum loss, both gross and net, by statutory line of business, by insurance and reinsurance, by statutory territory).

k) ***Paragraph 74: XBRL***

Clarity was requested on the criteria used by the Authority to identify peers using XBRL.

Generally, the methodology used to determine peers is driven by the objective of the analysis. Depending upon the goal, metrics may include, inter alia, percentage of insurance versus reinsurance written, extent of underwriting diversification, catastrophe exposure as a percentage of total book, similar business mix/lines written or any combination of these items, etc.

l) ***Paragraph 75: XBRL***

Comments were raised on whether the XBRL will be used in the 2010 filings.

The Authority anticipates that the reporting templates for 2010 will be XBRL enabled. Since XBRL enabled forms will be provided to insurers, it is anticipated that this will be unnoticed by the insurer.

m) ***Appendix A**: **global sector classifications table***

Clarification was requested on the application of the global sector classifications table to groups.

The Authority will provide a standardised, streamlined list of sector classifications. When submitting group structure, the respective entities are to be assigned to the relevant sector classifications.

n) ***Paragraph 51, 54 and 56: group reporting requirements***

Clarification was requested on whether these paragraphs relate to solo reporting or group reporting requirements.

These paragraphs refer to situations where the Authority is either the Group-wide Supervisor or a host supervisor. Under the existing solo regime, the Authority considers group effects upon the licensed Bermuda entity. This requires the Authority to request certain information relating to the group. Generally speaking, it is expected that more comprehensive group information would be required when the Authority is the Group-wide Supervisor.

o) ***Page 21: risk register***

Concerns were raised on the requirement to include a rating of the effectiveness of controls in the risk register.

Assessment of material risks is a requirement of the Insurance Code of Conduct. While the substantive work need not be performed at year-end, the Authority would expect that the register is kept current.

The Authority again would like to thank stakeholders for their comments on the Disclosures CP. We are committed to working with the Industry and other stakeholders to ensure a result that is in the best interest of the Bermuda market, taking into account the costs to the Industry.

Please feel free to contact the Authority if you have any questions.

Yours sincerely,

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Bermuda Monetary Authority