BERMUDA MONETARY AUTHORITY
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14th December, 2009

Dear Class 4 and 3B (Re)Insurers:

RE: CONSULTATION PAPER ON DISCLOSURE AND TRANSPARENCY

The Bermuda Monetary Authority ("the Authority") wishes to thank the stakeholders for their continued support on its initiatives. Recently, the Authority published a Consultation Paper on Disclosure and Transparency and draft legislation. A number of comments were received and the Authority's responses are outlined below.

Disclosures to Foreign Regulators

Clarification was requested on the Authority's position on disclosures made to foreign regulators.

The Authority appreciates the importance of effective and efficient supervision. Accordingly, the Authority proposes to accept disclosures made to home state regulators where:

1. the Authority has assessed a home state regulator's legislative and supervisory frameworks to be broadly equivalent with the Authority's frameworks and achieves acceptable supervisory outcomes; and
2. the information is readily available to the Authority if required.

Reporting Framework

Comments were expressed regarding the Authority's various reporting layers.

The Authority's views on effective and efficient regulatory and supervisory frameworks for the Bermuda insurers remain. In this regard, the Authority is working to streamline its regulatory procedures and envisages a consolidated reporting package.

<u>Costs of Additional Reporting</u>

Comments were expressed regarding the impact of costs relating to additional reporting.

The Authority appreciates concerns on keeping costs to the minimum. The Authority has adopted three guiding principles (paragraph 34) to ensure that policies adopted are appropriate for the Bermuda market.

The proposals outlined in the paper will apply only to Class 4 and 3B insurers. The Authority appreciates the unique risk characteristics of the Class 3A insurers and plans to work specifically with Class 3As to arrive at a solution that is appropriate for them. Accordingly, the Authority will be engaging in dialogue with this market segment beginning in 2010 before proposing enhancements.

The Authority considers the captive regime to be appropriate and consistent with international standards and at this time, no major changes are planned. The Authority will continue to monitor international developments and will consult with the market should changes be required.

<u>Governance</u>

Clarification was requested on:

a) the definition of "material";

In assessing materiality, the insurer should be guided by quantitative and qualitative aspects of the issue under review. Quantitative aspects include impact causing a reduction in the insurer's total statutory capital and surplus by 5% or more or cumulative impact resulting in a reduction of an insurer's total statutory capital and surplus by 10% or more. Qualitative aspects include the risk characteristics of the issue.

b) whether intra-group transactions between wholly-owned subsidiaries and their parents require disclosure; and

Each insurer should disclose all intra-group transactions, including transactions with wholly-owned subsidiaries.

c) whether exposures also include general and administrative intra-group receivables and payables.

Exposures would include general and administration intra-group receivables and payables. However, as indicated in the paper (paragraph 50), to the extent that the information can be satisfied with disclosures in the general purpose financial statements, the insurer would only need to direct the Authority to its general purpose filings.

<u>Risk Management</u>

Clarification was requested on the definition of a risk register.

The risk register analysis is a schedule of material risks that supports the insurer's overall risk management framework.

<u>Underwriting</u>

Clarification was requested on:

a) the definition of a "reporting year";

The reporting year refers to the fiscal reporting period of each insurer.

b) whether a "specific approval" clause would allow insurers to change the reverse roll forward from the current proposed format to an internal segment;

The Authority may, upon application, grant permission to vary the reporting requirements, provided that the alternate achieves the same objectives.

c) whether the Authority would continue to allow companies to use modified grouping of lines of business subject to approval; and

The Authority may allow segmented reporting, depending on the circumstances of the individual insurer.

d) the depth of the description of the insurer's underwriting strategy.

The Authority is requesting a general description of the insurer's underwriting strategy. This includes major areas of planned focus and anticipated material changes to the reporting year's strategy.

<u>Investments and Derivatives</u>

Clarification was requested on whether the exposure analysis of "5% of total assets" relates to total statutory assets or total investment assets and whether the analysis of "individual financial instrument" relates to specific investments.

On the investments and derivatives, the exposure analysis should be based on nominal exposures greater than 5% of total investment assets (aggregate sum of Lines 2(f) and 3(f)) and be disclosed by individual issuer.

Group disclosure

Clarification was requested on the allowances (as proposed in paragraph 91) in the 2009 and 2010 reporting years on the Authority's proposal to waive legal entity disclosure on risk management and governance when group supervision comes into effect.

The Authority recognizes that policies and procedures surrounding risk management and governance are often centralized, and cascaded from the parent throughout the group. To the extent that the insurer's board demonstrates sufficient oversight and the policies and procedures have been appropriately adopted at the insurer, the Authority will accept group risk management and governance disclosures in place of legal entity disclosures.

Group's frequency of reporting

Comments were received regarding the information that should be included in the group's management account; whether such information is needed on a statutory or general purpose basis; how may such information be compared to public reporting; timing of the information; and the effective date of the quarterly reporting.

With respect to the frequency of reporting, the group management account should include, at minimum, the unaudited income statement and balance sheet and may be completed on a general purpose, as recognized by the Authority, or statutory basis. Where groups publically file their quarterly accounts, the group may submit their public filings.

Group quarterly reporting will be effective upon adoption of the group-wide supervisory regime. Given continuing developments surrounding both regulatory and public disclosures and our third guiding principle to keep pace, reporting on risk management and solvency may form part of the quarterly reporting package.

Commercial Insurer Risk Assessment Framework ("the CIRA")

Comments were received regarding the Authority's expectations on the risk measurement component of the CIRA.

Risk measurement is a key component of the CIRA. It requires each insurer to employ adequate techniques and resources (individuals with the experience and skills) to capture and analyze data as it pertains to the operational risk exposures. It also necessitates the assessment of repercussions on the insurer's goals and objectives and the resultant effects on the insurer's risk management framework.

Public Disclosure

Comments were received regarding the timing of when documents are received and published on the Authority's website. Further, clarification was requested as to where on the website the publication would be featured for ease of reference.

The Authority will generally be publishing documents within 1 – 2 months of receipt. The public filings are currently published on its website at: http://www.bma.bm/insurance/public-filings.asp. To enhance the awareness of these public filings, a direct link from the Authority's home page has been added.

Role of Service Providers

Comments were received regarding the Authority's view on the role of service providers in light of the responsibilities expected of board and senior management. Further, clarification on the terms "board" and "senior management" were requested.

Section 1A of the Insurance Act 1978 defines the role of the director and senior executive. The formal declarations to accompany statutory returns are required by individuals fulfilling the specified roles and would only extend to service providers where they have been engaged to perform those duties.

Yours sincerely,

Bermuda Monetary Authority