



31 October 2019

NOTICE

Draft Rules for Annual Filing Requirements of Insurance Marketplace Providers and Class IIGB Insurers

BACKGROUND

1. In May 2019, the Bermuda Monetary Authority (BMA or the Authority) released a Consultation Paper proposing new classes of insurer and an Insurance Marketplace. Industry comments were then considered and subsequently the Bermuda Government passed Amendments to the Insurance Act 1978 (Insurance Act or the Act).
2. The BMA is now proposing the necessary supporting Rules to govern the annual filing requirements for Insurance Marketplace Providers and Class IIGB insurers.
3. The draft Rules cover Insurance Marketplace Providers (a platform of any type, established for the purpose of buying, selling or trading contracts of insurance), and Class IIGB insurers (Innovative Insurer-General Business (IIGB)), a body corporate that intends to carry on general business in an innovative manner.
4. In its Consultation Paper dated 13 June 2019, the BMA noted the benefits and risks involved with these new classes. The noted risks, as well as experience gained so far from engagements with companies under the insurance regulatory sandbox and innovation hub, served as a useful guide for the BMA in drafting these Rules.

Insurance Marketplace Providers

1. The key risks identified for Insurance Marketplace Providers include failures on governance over contract execution, price discovery algorithms, transparency and protection of client data, as well as maintenance of Marketplace independence.
2. Therefore, the Authority's proposed regulatory framework for Insurance Marketplaces focuses on fit and proper requirements; with respect to controllers and officers, governance and risk management; and control environments, particularly related to operational, technology and cyber risk.
3. Further, as the Insurance Marketplace Provider is an intermediary class, the Authority's regulatory framework for brokers and agents applies for the most part, in addition to the appropriate framework to cover the aforementioned risks.

4. Key highlights of the proposed Rules for Insurance Marketplace Providers are:
 - a. A Declaration of Compliance to be required from the company's Directors and Chief Executive.
 - b. A qualitative return with supporting schedules requiring important information on governance, risk management, cyber risk, sanctions and Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) compliance, to be accompanied by year-end management accounts and business plan for next year.

Class IIGB Insurers

1. For Class IIGB, particularly those that will adopt the full use of digital assets or tokenised economy as their main business model, the Authority expects the risks identified for digital assets to be present in this class.
2. Accordingly, while IIGB is considered a limited purpose insurer, the proposed regulatory framework for IIGB will contain a risk-based capital requirement, in addition to other measures, to cover the risk profile of this new class.
3. Consequently, key highlights of the proposed Rules for Class IIGB include:
 - a) Minimum solvency and minimum liquidity requirements, similar to Class 3A.
 - b) An enhanced capital requirement calculated using a capital solvency return model similar to Class 3A, calibrated at 99% Tail Value at Risk (TVaR) at one year horizon.
 - c) Capital factors applied to financial accounts denominated in digital assets, with the ability to hedge away most of it, if the digital asset is tied to insurance contracts that are denominated in the same digital asset, or for those that are tied to fully collateralized business.
 - d) Additional disclosures akin to the requirements under the Digital Asset Business Act 2018, including information on the company's governance, risk management and internal controls, in relation to existence, safekeeping and custody of digital assets, segregation of client assets and cyber security. This would include disclosures relating to sanctions (required for all) and AML/ATF Regulations, if they were in scope.
 - e) A Declaration of Compliance to be submitted and posted to the BMA website.

The insurance industry and other interested persons are invited to send the BMA their views on the draft Rules. Comments should be sent to the Authority, addressed to riskanalytics@bma.bm **no later than 30 November 2019**.