

REGULATORY UPDATE | April – June 2020



Preface

This Regulatory Update reports on the activities at the Bermuda Monetary Authority (BMA or Authority) for the quarter ended Q2-2020.*

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**Published July 2020*

Regulatory and Legislative

BMA Publishes 2019 Insurance Stress Test Report and 2019 Captive Report

On 17 June 2020, the Authority published the 2019 Insurance Stress Test Report. The report was the result of a joint exercise about natural catastrophe and economic scenarios for Property and Casualty (P&C) insurers between the UK's Prudential Regulatory Authority (PRA) and the BMA. The report highlighted the robustness of Bermuda's P&C insurers after it analysed a sample of nine, large Bermuda commercial insurers (Class 4 and 3B) with approximately \$35 billion in capital and surplus as of 31 December 2018.

Additionally, on 29 June the BMA published its 2019 Captive Report. This report highlighted results from 2018 year-end statutory financial returns submitted through the electronic Statutory Financial Return (eSFR) as of 31 December 2019 by Bermuda's general business captive insurers (Class 1, 2 and 3). The Authority's review of 2018 data demonstrates the continued strength of the Bermuda captive market through its ability to pay claims and its profitability indicators. From the data and the Authority's experience and conversations with industry, the market appears to be resilient. Continued growth is expected with both long-standing exposures and emerging risks being underwritten. Whilst the Bermuda captive market has not been exempt from mergers and run-offs, it has had an active year of registrations and expansions into new lines of business and greater retentions. Bermuda's captive market is mature, having long endured the ebbs and flows of market forces, while steadily maintaining Bermuda's position as the leading captive domicile.

BMA Consults on Digital Asset Issuance Rules and Statement of Principles

Following the adoption of the Digital Asset Issuance Act 2020, the BMA published for consultation the potential set of rules that would apply to authorised digital asset issuers. The rules include obligations relating to the minimum required information, ongoing disclosures, information technology and cybersecurity, custody of assets, as well as compliance measures.

Additionally, the BMA published for consultation the Statement of Principles that seeks to provide clarity as to how the BMA interprets the minimum criteria for the authorisation provided in Schedule 1 of the Digital

Asset Issuance Act 2020 as well as how it uses its other legislative powers.

Stakeholder Input Sought for Digital Asset Business Account Rules


To provide clarity to the digital asset industry while international accounting standard bodies work to provide further guidance, the BMA is proposing to introduce Digital Asset Business Accounts Rules 2020 (Rules). These Rules will provide specific guidance to DAB licensees in Bermuda when preparing their Annual Statutory Financial Returns (Returns). These Returns provide important financial and non-financial information to the BMA to evaluate the solvency of licensees with the ultimate objective of protecting the public.

Public Warning Issued for QS International Limited

On 6 June 2020, the Authority observed that QS International Limited falsely claimed, on its website, that it had been licensed by the Authority as an Investment Business and a Digital Asset Business. On 12 June, the Authority advised the public via press release that QS International Limited has not been granted a licence to conduct investment business or digital asset business and that the above-listed activities do not qualify for exemptions from the licence requirement. QS International Limited is not regulated, authorised or licensed by the Authority. Anyone who conducts business with this entity does so at his or her own risk.

Insurance Marketplace, Class Innovative Insurer — General Business (IIGB) Insurer, Collateralized Insurer (CI) and Special Purpose Insurer (SPI) Technical Rules (Rules) Come Into Force

In 2020, the Authority proposed the introduction of necessary supporting technical rules to govern the annual filing requirements of these new classes in accordance with the Act. In this regard, the Authority's emphasis on the Rules relating to insurance marketplaces focus on fit and proper requirements with respect to controllers and officers, governance and risk management, and control environment particularly related to operational, technology and cyber risk.



The regulatory framework implemented via Rules for Class IIGB Insurers contains a risk-based capital requirement, in addition to other measures to address its risk profile and to ensure close monitoring.

The CI Rules largely formalise the: (i) filing requirements and (ii) capital framework for the new CI class.

It should be noted that the SPI Rules do not represent a material change to the existing filing requirements for SPIs. Therefore, the filing requirements in the SPI Rules are consistent with the 2018 year-end filing requirements for such insurer class.

The Rules came into force on 30 April 2020.

INTERNATIONAL AFFAIRS — CONTINUED FOCUS ON COVID-19

The BMA continued to actively participate in several international groups in Q2-2020, including playing a key role in policy discussions and framing policy papers in a number of areas. We engaged with other international regulators and sub-groups within the international bodies to discuss the impact of COVID-19 on our industries and the way we are continuing to execute our mandate as the financial regulator over our respective jurisdictions.

Financial Action Task Force (FATF)

Bermuda is a member of the FATF Working Group to review recommendation 24. Several meetings were held during Q2 to discuss this recommendation and proposals were sent to the FATF Policy Development Group for consideration.

Group of International Finance Centre Supervisors (GIFCS)

In April 2020, the BMA participated in the GIFCS annual meeting via teleconference. GIFCS members provided an update on how COVID-19 was affecting their jurisdictions and the various mechanisms employed by regulators to determine the impact on their financial sectors. They also discussed how their respective governments were deploying resources to support their economies.

International Association of Insurance Supervisors (IAIS)

The BMA continued its work with the IAIS and participated in several committees and working groups. There were several calls, especially with the IAIS Executive Committee on COVID-19 related issues, and the BMA actively participated in all these calls. The BMA is also working on a number of IAIS working groups to develop policy papers in key areas, most notably on the various insurance core principles, insurance capital standard, macroprudential and internationally active insurance groups.

National Association of Insurance Commissioners (NAIC)

The BMA and the NAIC held two calls during Q2 to discuss COVID-19, how it has affected our respective operations and the measures taken to continue to perform our regulatory mandate. The BMA also discussed the impact of COVID-19 on Bermuda's insurance sector and preparations for the 2020 hurricane season.

Group of International Insurance Centre Supervisors (GIICS)

GIICS members held regular calls during Q2 to discuss members' response to and effects from COVID-19. The calls focused on the impact on affected economies, as well as steps taken by regulatory bodies over their licensees. The BMA provided updates on its efforts and how this event has impacted Bermuda's financial services markets.

Sustainable Insurance Forum (SIF)

The BMA participated in various meetings of the SIF where we gave input to strategic planning (2021-2023) and provided feedback to the first draft of a SIF/IAIS application paper on climate risk to be approved by the IAIS Executive Committee by the end of 2020. The BMA also provided updates to SIF about ongoing and planned activities for the Bermuda market (including a climate survey to industry in H2-2020 and a climate stress test in 2021).



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