



BERMUDA MONETARY AUTHORITY

GUIDANCE NOTE

GENERAL BUSINESS INSURERS WITH SEGREGATED ACCOUNTS AND SEPARATE ACCOUNTS

September 2026

Contents

INTRODUCTION3

OWNERSHIP AND GOVERNANCE OF SEGREGATED ACCOUNTS4

LICENSING5

FUNDING.....6

GOVERNANCE, BOARD COMPOSITION AND RISK MANAGEMENT 7

REPORTING FOR CELLS8

BALANCE SHEET ACCOUNTING9

DECLARATION OF COMPLIANCE9

LOSS RESERVE SPECIALIST OPINION (LRSO)9

RESTRICTIONS TO RETURN OF CAPITAL UNDER SECTION 31C OF THE
INSURANCE ACT..... 10

COLLATERAL QUALITY, IMPAIRMENT AND DISCLOSURES..... 11

LIMITED RECOURSE 13

MATERIAL CHANGE IN BUSINESS 13

IMPLEMENTATION 14

APPENDIX 1 - GLOSSARY 15

APPENDIX 2 - CELL REPORTING SCHEDULES 18

APPENDIX 3 – MANAGEMENT REQUIREMENT20

INTRODUCTION

1. This Guidance Note (GN) applies to insurers registered with the Bermuda Monetary Authority (Authority or BMA) who either maintain Segregated Accounts as defined in the Segregated Accounts Companies (SAC) Act 2000 or manage Separate Accounts as permitted for insurers incorporated under a private act. This GN covers both limited-purpose and commercial insurers in the General Business Insurance licence classes. It does not apply to insurers operating in the long-term sector. Incorporated Segregated Account Companies and Incorporated Segregated Account insurers are addressed under a separate GN issued in December 2020.
2. The Authority is issuing this GN under the provisions of Section 2B of the Insurance Act 1978 (Insurance Act).
3. This GN is intended to assist general business insurers utilising Segregated Accounts and Separate Accounts by clarifying the Authority's expectations regarding their establishment, governance, operation and reporting. The objective is to promote consistent application of the Insurance Act and its associated rules and regulations and enhance supervisory transparency and predictability in relation to insurance activities occurring at the cell level.
4. For the purpose of this GN, reference to a 'cell' or 'cells' means a Segregated Account and/or a Separate Account, as applicable.
5. In this GN, the term 'insurer' includes 'reinsurer'; 'insurance' includes 'reinsurance' and 'insurance business'; and 'policyholder' or 'policyholders' includes current and past policyholders, third-party claimants, and beneficiaries to whom the insurer is contractually obligated to fulfil its insurance obligations.
6. The manner in which Segregated Accounts and Separate Accounts Companies conduct regulated insurance business should ensure that the policyholders of insurers that conduct business through cells have an appropriate level of policyholder protection consistent with policyholders of insurers that are not conducting insurance in cells.
7. Insurers should ensure there are clear contractual arrangements established to govern the operations of each cell. These may include a (re)insurance contract, participation agreements, an arrangement for collateral or funding, and any related agreements and documentation (including arrangements related to further capital contributions, i.e., 'top-ups').
8. While the Authority aims to provide clarity on its approach, this GN is not exhaustive. In this GN, the Authority endeavours to outline its regulatory and supervisory approach and expectations for insurers that conduct regulated insurance business through cells to ensure that supervisory requirements are proportionate to the risks presented, while maintaining consistent standards of policyholder protection across all segregated account companies and separate account structures. However, ultimately, it is the responsibility of the insurer's Board of Directors and management to ensure ongoing compliance with the Insurance Act and its related rules and regulations and adherence to codes and guidance, as well as to maintain the conditions of the insurer's licence.

9. The GN for Special Purpose Insurers issued 1 July 2020 provides specific guidance for the structure, reporting and operation of Special Purpose Insurers (SPI). Where the SPI GN and this document do not align, the SPI GN will take precedence for this insurance class.
10. The risk-based regulatory framework proposed in this GN allows the Authority to adopt a proportional approach given the risk profile and licence class of the insurer (Limited Purpose Insurer versus Commercial insurer). The GN will become effective on **1 January 2027** and applies to financial years commencing on or after that date. The Authority understands the complexity of the transition and will consider any applications of a transitional nature for the proposed changes in the first year following the implementation of this GN. The Authority will continuously engage with the industry during the implementation process.

OWNERSHIP AND GOVERNANCE OF SEGREGATED ACCOUNTS

11. An insurer registered under the Insurance Act, which conducts insurance business within cell structures, must ensure that its Board of Directors understands its responsibility. This includes ensuring that the overall business, as well as the operations within the cells, are effectively directed and managed by the insurer's management team, insurance manager or outsourced service providers. Furthermore, the insurer's business activities should be conducted with integrity, due care and the appropriate level of professional expertise. It is the Board's responsibility to ensure that management has compliance processes in place to assess and document the fitness and propriety of its members, controllers, officers, insurance manager and any outsourced service providers. The Board is also responsible for providing appropriate oversight of the insurer's governance framework (including where an insurance manager is appointed) as well as risk management and internal controls frameworks, including any activities and functions that are delegated or outsourced.
12. Where an account owner or participant provides services for cells, they should be considered an outsourced service provider and be governed and managed at a level commensurate with the type of risk profile, complexity and nature of the services provided, in accordance with the outsourcing guidance in the Insurance Code of Conduct. The responsibility for the management and oversight of these outsourced services cannot be assigned or delegated and must remain with the insurer.
13. The insurer's Board of Directors shall ensure that robust processes are in place for appropriate Know Your Client (KYC) materials to be obtained and that due diligence is performed for all cell participants, sponsors and capital/collateral providers. In addition, these processes are subject to ongoing risk-based monitoring. The insurer's Board of Directors must also ensure that processes and controls are in place to facilitate compliance with all applicable sanctions in Bermuda, suspicious activity reporting requirements and Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) requirements.

LICENSING

14. Companies registered under the SAC Act that are intent on conducting insurance business must apply to become registered under the Insurance Act. The insurance licensing application must be comprehensive and include all relevant documentation for conducting insurance business in the cells, including draft or finalised copies of insurance contracts, collateral agreements and agreements with account owners. If information related to the business to be conducted in the cell is not available at the time of licensing, the insurer will re-engage the Authority post-registration to provide the update prior to commencing the business activities. The application filed with the Authority shall include the following information, enabling the Authority to complete its due diligence assessment:

- The relationship between the intended account owner, policyholders and the company
- The flow of capital, namely the nature of funding available, including contingent forms of capital
- Arrangements for topping up capital and for ensuring that the capital for each cell is segregated from the assets of the other cells and the general account
- Limited recourse language, which states that the recovery in relation to liabilities in each cell is limited to the assets of that cell

After the licensing and registration process, the Authority expects Segregated Accounts companies' ongoing operations to adhere to and be aligned with the details of the insurer's approved business plan and licensing conditions. Prior approval will be required where there is a change in the business plan or a license condition requiring prior approval.

15. Under the Insurance Act, insurers utilising segregated accounts (cells) to conduct insurance business are registered in accordance with the nature of the insurance written and the scale, structure and complexity of the operations. In assessing the appropriate licence class, consideration is given to factors such as the type of contracts underwritten, contractual structure, the relationship with policyholders or cedants, and other indicators.

16. Generally, the following licensing criteria will apply:

- If an insurer proposes to use a cell structure to conduct insurance business and intends to write related-party insurance which would ordinarily meet the criteria to be registered as a Class 1, 2 or 3 insurer (as applicable) as defined by the Insurance Act, the applicant will generally be registered in one of these three Limited Purpose Insurer classes as appropriate. In all these cases, the expectation is that the exposure from the business written in the cells or general account needs to be backed by capital (or collateral) that is capable of absorbing and paying losses as and when they become due
- If an insurer proposes to use cells and intends to write unrelated insurance above the thresholds for Class 1, 2 or 3 Insurer, that is commercial in nature as defined by the Insurance Act, they would generally be registered in a Commercial Insurance Class 3A, 3B, 4 (as applicable) IIGB, Special Purpose Insurer (SPI) or Collateralised Insurers (CI) as appropriate. Unrelated insurance in this case will be assessed at both the insurer and cell levels

17. If the company plans to write a combination of related and unrelated insurance business, it will be registered in accordance with the Insurance Act, which is prescribed in relation to the volume of unrelated business.
18. Where an insurer intends to write all its business within cells, the Authority will include a condition on the Certificate of Registration requiring prior written approval if any insurance is to be conducted through the general account.
19. At the licensing stage, the company's business plan should detail the funding arrangements supporting the exposure to be written in each cell. The business plan should also ensure the insurance business conducted in the cells will either be fully collateralised (meaning the funding contributed to the cell will match the exposure to be written in the cell) or fully funded (meaning funding arrangements will be in place to ensure the exposure to be written in the cell will be fully provided for).

FUNDING

20. SACs established in Bermuda are utilised for a range of commercial purposes. The statutory framework governing SACs provides a consistent legal mechanism for the segregation of assets and liabilities between cells. However, the business models and funding structures employed in practice can differ materially. These differences are relevant from a supervisory and prudential risk perspective.

Common uses of SAC structures include:

- To facilitate rent-a-captive arrangements, where third-party participants access the insurance platform through individual cells
 - To accommodate participating or investor-funded cells, where each cell may have a distinct owner, participant, or capital provider, assuming the insurance exposure of that cell
 - To segregate distinct lines of insurance business or risk pools within a single corporate group, where the SAC has a single shareholder and funding is derived from the parent or group
21. Although the statutory segregation of assets and liabilities applies equally across these models, the source and reliability of financial support may differ significantly. In rent-a-captive and investor-funded SAC structures, the capital supporting each cell is typically provided by individual participants or investors with obligations and financial capacity that may be limited to that cell. In contrast, where an SAC is used solely to segregate business activities within a group structure and funding is derived from a single parent or common source, the financial strength and commitment of the parent entity are central considerations in assessing the availability of capital and liquidity.
 22. Accordingly, the regulatory assessment of SACs necessarily takes into account the substance of the structure, including the identity and financial wherewithal of those providing capital, the extent of legally binding funding commitments, and the degree to which support may be available beyond the individual cell. The supervisory approach

reflects the principle that risk must be supported by demonstrable and reliable financial resources.

23. A key supervisory consideration is the nature and robustness of the funding arrangements in place to ensure that sufficient financial resources are available to meet insurance claims as they fall due on an ongoing basis. Where a cell writes insurance business supported by participating shareholders, the relevant participation agreements should clearly set out the terms governing capital contributions, ongoing funding commitments and the mechanisms for meeting claims and other liabilities.
24. The funding that covers exposure shall be of an acceptable quality. Examples include cash; collateral in trust; reinsurance with carriers rated A- or better by AM Best, S&P or a similar approved rating agency; and contingent forms of capital such as Letter of Credit or other instruments approved by the Authority as Other Fixed Capital.
25. Where the initial funding details are unknown at the time of licensing, the business plan should detail the target funding level that will be applied to future business written in the respective cells, the possible funding sources, the profile of potential investors that will participate in the cells, the projected growth plan, and the nature of the funding. The Authority's supervision team will review the actual available funding to cover exposure that is written in the cells as part of its annual statutory filings review.
26. Each cell shall adhere to the relevant solvency requirements on a stand-alone basis and must not make underwriting, reserving or distribution decisions by reference to the consolidated capital position of the SAC as a whole. Supervisory assessment will therefore focus on the assets and liabilities attributable to the individual cell. This reflects the SAC Act, which provides that the assets of a cell are available only to meet the liabilities of that cell and not those of other cells or the general account. Accordingly, each cell must maintain capital and liquidity adequate to the risks it assumes, independently of the wider SAC structure.

GOVERNANCE, BOARD COMPOSITION AND RISK MANAGEMENT

27. In accordance with the Insurance Code of Conduct, an insurer with cell structures must establish sound and effective governance and risk management frameworks that are proportional to its risk profile. The frameworks should facilitate effective and efficient operations and address the organisational structure of the cells, including the delegation or outsourcing of management and operational tasks, the segregation of duties and the management of conflicts of interest. These governance and oversight responsibilities rest with the insurer's Board of Directors and cannot be delegated.
28. Insurers with cell structures should ensure that they organise their governance framework and composition of their Board of Directors in a manner that mitigates a reliance on, or conflict of interest with, the account owner or participant.
29. The insurer's Board of Directors is responsible for making sure that management has effective controls in place, such that exposure within each cell maintains compliance with

its approved business plan and appropriate contributed capital (or collateral), and that any forms of contingent capital (or collateral) are readily available whenever needed.

REPORTING FOR CELLS

30. The reporting requirements applicable to cells give effect to the following sections of the Insurance Act:
 - i. Section 15 (3) of the Insurance Act requires insurers to include in the statutory financial statements the information calculated to fulfil (in addition to any other purposes for which regulations may be made) the following purposes:
 - a. To provide a warning, as early as reasonably possible, to any person examining the said statements (whether by way of notice of the observance or non-observance by the insurer of any margin of solvency, or in any other way) of any financial or operational difficulties into which the insurer's business has fallen or might appear likely to fall; and
 - b. To provide the basis on which the BMA or any other authority may, in good time, take action under the Act or any other statutory provision to exercise any statutory power available to it for the safeguarding of any element of the public interest involved in or affected by the insurer's business.
31. For insurers with cells, including each cell's information in the statutory financial statements is essential for ensuring that the insurer fulfils the requirements of Section 15 (3) of the Act to facilitate regulatory oversight. The Authority has introduced a Schedule of Segregated Accounts (the Schedule), which forms part of the annual statutory filing.
32. The contents of the Schedule have been designed to provide sufficient information in the statutory financial statements to assess the financial and operational status of the insurer's general account as well as each of the insurer's cells.
33. The Schedule is an integral part of the insurer's statutory financial statements. The Schedule template contains the minimum cell information to be provided in the insurer's statutory financial statements. Any additional information that is necessary to fulfil the requirements of Section 15 (3) of the Insurance Act should be added to the disclosure section of the statutory financial statements. Management is responsible for ensuring the information submitted via the Schedule reconciles with the financial statements of the Company.
34. Section 15 (4) of the Act requires that the statutory financial statements of an insurer shall be audited annually by the insurer's approved auditor. As part of the audit the approved auditor should audit the information for individual cells (in accordance with the approved auditor's materiality threshold).
35. The Schedule is not in scope of the audit. The Authority will recommend agreed-upon procedures of an appropriate scope and depth to be carried out by the approved auditor on the Schedule. This is expected to provide reasonable oversight of the insurance business in the cells.

36. Section 16A of the Insurance Act requires the approved auditor to give notice to the Authority if they become aware of any fact or matter which is likely to be of material significance for the discharge, in relation to the insurer, of the Authority's functions under the Insurance Act. The Authority's expectation is that the approved auditor will observe Section 16A of the Act and consider the significance of matters at both the insurer's general account and the cell level.

BALANCE SHEET ACCOUNTING

37. The term 'Balance Sheet Accounting' refers to a modified accounting presentation whereby the assets related to the cells are reported on the balance sheet as a single line item on line 13, and the liabilities and capital related to the cells are reported on the balance sheet as a single line item under line 36. The modification in the presentation of the statutory financial statements requires approval under Section 56 of the Insurance Act (in relation to Limited Purpose insurers) and Section 6C (in relation to Commercial Insurers). A key consideration in assessing these applications is whether the general account is exposed to the risks in the cells and whether the insurance exposure in the cells is fully provided for by the account owners/participants.

DECLARATION OF COMPLIANCE

38. Section 15A of the Insurance Act requires insurers to file a declaration confirming compliance with certain matters as part of their statutory financial statements under Section 17. While the Declaration of Compliance reflects compliance at the company level, where issues arise impacting individual cells, the Authority should be notified promptly. The declaration is required to include the following and whether or not the insurer has included them, in respect of the preceding financial year:

- Complied with all requirements of the minimum criteria applicable to it
- Complied with the minimum margin of solvency as at its financial year-end
- Complied with applicable enhanced capital requirements as at its financial year-end
- Complied with applicable conditions, directions and restrictions imposed on, or approvals granted to, the insurer
- Complied with the minimum liquidity ratio for general business as at its financial year-end

LOSS RESERVE SPECIALIST OPINION (LRSO)

39. Section 18B of the Insurance Act prescribes that the statutory financial return required to be filed by an insurer under Section 18 shall include the opinion of the approved Loss Reserve Specialist (LRS) in respect of the insurer's loss and loss expense provisions. With regard to Commercial Insurers, the section within the Insurance Prudential Standards Solvency Requirement Rules entitled Capital and Solvency Return states that

an insurer shall, at the time of furnishing its Capital and Solvency Return, also file with the Authority an LRSO which takes into account its technical provisions calculated in accordance with Line 19 of Form 1EBS and Schedule XV.

40. Historically, the BMA has approved exemptions from the requirement to file an LRSO for general business for some insurers with cells. These exemptions have traditionally included cells that are fully collateralised to policy limits or where no insurance has been written or no exposure exists in the general account. However, ensuring reserves are adequate is just as important as ensuring there is sufficient capital to fund exposure.
41. Where the Authority has approved a request to apply Balance Sheet Accounting to the insurance business conducted in the cells, the Statutory Balance Sheet will show the assets related to the cells on Line 13 and the liabilities and capital related to the cells on Line 36. The approval will also include a condition requiring the LRS to opine on the reserves included in on Line 36.
42. The LRS is required to opine on the amount reported on Line 17 of the statutory balance sheet for limited purpose insurers, where applicable by class, and Line 19 of Form 1EBS filed by commercial insurers. This information is particularly important for assessing capital adequacy where there is no limit on the exposure written in cells.
43. The Authority generally approves applications for LRSO exemptions filed by segregated accounts companies writing general business in cases where the cells are fully collateralised to policy limits or the cells are fully funded and supplemented with reinsurance that ensures the business in the cell is covered to policy limit, and there has been no insurance business written in the general account.
44. The Authority will assess the approval of waivers for an opinion from the approved LRS on a case-by-case basis (e.g., where a cell does not retain any exposure and the exposure is ceded to an insurance carrier rated A- or better by AM Best or a similar rating agency). In this case, the Authority may require evidence of an actuarial review of the gross reserves, details of the insurance programme, and details of the capital to fund the exposure if the reinsurer does not provide support for the application. Approval for a waiver of the requirement to file an opinion of the approved LRS will be granted on an annual basis and, generally, renewed annually to the extent that risk mitigating factors remain in place.

RESTRICTIONS TO RETURN OF CAPITAL UNDER SECTION 31C OF THE INSURANCE ACT

45. Section 31C of the Insurance Act requires insurers to seek prior approval of capital distributions that will result in a more than 15% reduction in the statutory capital reported at the previous year-end. Alternatively, where a cell reduction pertains to a material movement greater than 15% of the capital in an individual cell but does not meet the threshold of Section 31C, the insurer should provide the Authority with a notification within 14 days post reduction.
46. The application filed pursuant to Section 31C of the Insurance Act shall include:

- A description of the proposed transaction(s) and the rationale for distribution
- Pro forma financial statements showing the balance sheet and income statement pre- and post-distribution
- Copies of contracts, as applicable
- Contract termination letter(s), as applicable
- Collateral withdrawal notice(s), as applicable
- Confirmation that the cell(s) will remain fully funded or collateralised if there is a residual cell exposure to insurance

47. The Authority may consider applications seeking prior approval for multiple capital distributions over a defined period, provided that all of the following criteria are satisfied:

- The capital to be distributed over the period is no longer required to pay claims/obligations to policyholders and the insurance exposure is reduced equal to the distribution and the remaining exposure in the relevant cell(s) will remain fully collateralised to the policy limit post distribution
- The capital to be distributed relates to collateral held in Trust to supporting policies that are no longer on risk, and the Trustee will issue a fully executed trust release agreement authorising the release of collateral from the trust
- The capital to be distributed relates to a policy that has been commuted or cancelled, all remaining obligations are extinguished and the residual capital/collateral from that cell is released

48. Subject to the Authority's satisfactory review of the application, the distribution request will be approved for a fixed period, normally a year, on the condition that the Company provides information requested by the Authority to ensure the capital distribution pre-approval criteria was met, within 30 days after the capital distribution is completed.

49. The approach allows insurers to distribute excess capital/collateral in cells in an expedited manner, leveraging guardrails specified in contractual arrangements, collateral release agreements, and commutation agreements that ensure the cell continues to meet fully collateralised criteria post-distribution.

50. It should be noted that any insurer with specific conditions on its registration restricting dividends, distributions or return of capital is required to adhere to those specific conditions as prescribed.

COLLATERAL QUALITY, IMPAIRMENT AND DISCLOSURES

51. The Board of Directors of the company that has established cells for the purpose of conducting insurance business should ensure effective oversight of the insurer's management and operational policies, procedures and controls for the collateral and funding available based on the exposure that is assumed by the cells (i.e., contributed capital and contingent forms of capital). This should be in line with the representations set out in the company's approved business plan, licensing conditions and relevant

contractual arrangements.

52. The Authority does not perceive the following arrangements as an acceptable means of funding insurance exposure written in the cells:

- a) Collateralisation using what could be considered speculative and low-quality investment instruments that do not provide reliable and readily available funding for potential claims;
- b) Exposure that is collateralised using receivables, including premium receivables. The exception is where any net premiums receivable from the cedant if the (re)insurance contract has appropriate contractual provisions that permit the insurer to offset the losses payable by the insurer against the net premiums due under the (re)insurance contract. In this case, the net premiums shall be the gross premium written, less any applicable expenses, such as brokerage and tax. Similarly, funds withheld by a cedant may cover the collateral requirements, provided this is clearly stated in the (re)insurance contract; and
- c) Arrangements relying on 'Limited Recourse' language in place of actual collateral or capital.

53. It is the Authority's expectation that the cells will generally carry minimal investment and collateral-related counterparty credit risk.

54. Where the cell is writing fully collateralised insurance business, the collateral must be contributed to the cell on or before the effective date of the insurance contract.

55. Where there are contractual top-up provisions to mitigate and manage losses incurred/loss ratios, or the loss of value of assets backing the collateral requires additional collateral to be contributed, the insurance contract must clearly define specific mechanisms and arrangements as to how the top-up provision will be executed in the event it is triggered. These mechanisms and arrangements must be defined using explicit contractual language.

56. Evergreen and irrevocable Letters of Credit (LOC) are acceptable forms of contingent capital, provided that the issuer of the LOC is:

- a) A regulated financial institution; and
- b) Either:
 - i. Has achieved a financial rating (counterparty, credit or financial strength as applicable) of at least A- (or equivalent) as at the date of application and as determined by a recognised rating agency; or
 - ii. Is of a sound financial quality (in the circumstance of unrated issuers or issuances) as deemed by the Authority.

57. The LOC should be approved by the Authority for it to be reported on Form 8 - Statement of Statutory Capital & Surplus of the statutory financial statements.

58. The insurer, through the Principal Representative fulfilling responsibilities set out in Section 8A of the Insurance Act, shall notify the Authority on reaching the view, or becoming aware, that an impairment of assets backing the collateral has occurred. In this case, the insurer is liable to top up the collateral in accordance with each insurance contract. The Principal Representative shall provide the Authority with a written report outlining all the relevant particulars, including how the top-up has been or shall be satisfied.

LIMITED RECOURSE

59. Where Limited Recourse provisions apply, recoveries from the cell are limited to the available assets in the cell. Limited Recourse provisions allow contracts to be commuted or cancelled when a liability to a third party exceeds the value of available assets. Where Limited Recourse provisions apply, and a cell is insolvent, the cell may be liquidated and closed as a measure of last resort by an independent party to the contract. Limited Recourse language cannot be used to justify that the insurance business is fully funded. Rather, Limited Recourse language is a backstop when there is a shortage of assets available to fund exposure that has been written, and the insurer or the cell is deemed to be no longer operating on a going-concern basis.
60. Limited Recourse in a contractual arrangement is not a substitute for the need to have clear and effective contractual language within the insurance policy or an agreement that specifies the limits and aggregate limit, the capital and collateral structure and operations, treasury, investment strategy and governance, and operational and risk management controls.

MATERIAL CHANGE IN BUSINESS

61. The following changes are considered ‘material’ for the purposes of determining whether the Authority needs to be notified of the changes:
- a) Providing insurance for any additional risks that were not contemplated in the initial transaction and/or business plan;
 - b) Making any material changes to the insurance contract or any of the collateral or ancillary contracts to the insurance contract;
 - c) Making any modifications to the material disclosures included in the original application;
 - d) Raising additional capital from investors and/or cell participants not identified or contemplated in the original documentation provided to the Authority;
 - e) Making any other changes pertinent to its business where a reasonable and knowledgeable person would deem these changes to be material; and
 - f) Making any material change as outlined in Section 30JA of the Insurance Act. In this case, these changes will then be subject to prior supervisory approval as required by Section 30JB.

A succession of minor changes could, as a whole, constitute a material change that requires notification.

62. The approval process for any material change in the insurer that has cell business will take into account the nature, scale and complexity of those changes, as determined by the Authority, to ensure the risks are effectively mitigated, and the capital is appropriate to support the ongoing operations of the insurer.
63. In its deliberations, the Authority shall consider whether the changes constitute a change in the insurer's business plan and, to the extent that it does, the Authority may request additional information in order to assess the impact that the changes will have on the insurer and the relevant cells.

IMPLEMENTATION

This GN will come into effect on **1 January 2027**.

APPENDIX 1 - GLOSSARY

‘Account Owner’ in relation to a segregated account means any person who is:

- a) The registered holder of shares or any LLC interests which are:
 - i. Issued by the segregated accounts company; and
 - ii. Linked to that segregated account.
- b) Expressly identified in the governing instrument linked to a segregated account as being an account owner for the purposes of the SAC Act in respect of that segregated account; or
- c) Expressly designated in the records of the segregated accounts company as being an account owner in respect of that segregated account; and
- d) The interests of an account owner in any of the foregoing capacities in relation to any segregated account are referred to in the Insurance Act as ‘account holdings’.

‘Authority’ means the Bermuda Monetary Authority that was established by the Bermuda Monetary Authority Act 1969.

‘Capital and Solvency Return’ means a return relating to the insurer’s or insurance group’s risk management practices and to the information used by the insurer or insurance group to calculate its enhanced capital requirement as may be prescribed by or under Rules made under Section 6A of the Insurance Act.

‘Commercial Insurer or Commercial Insurers’ means Class 3A, 3B and 4 insurers.

‘Credit Risk’ is the risk of loss arising from an insurer’s inability to collect funds or receivables from debtors.

‘Fully Funded’ means a cell is financed up to the reserve provision by means of cash and cash equivalents, investments, assets held in a 114 trust or equivalent, LOCs, reinsurance from a carrier rated A- or above, an indemnification agreement from the owner or beneficial owner, or any combination of these.

‘Fully Collateralised’ means a cell financed up to the full maximum aggregate exposure of a contract by cash and cash equivalents or other assets accepted by the Authority on a case-by-case basis, held to the benefit of the insured.

‘General Account’ means an account comprising all the assets and liabilities of an insurer and all of the assets and liabilities of a segregated accounts company which are not linked to a segregated account of that insurer.

‘General Business’ means, subject to Subsection (4) of the Insurance Act, an insurance business that is not a special purpose business or Long-term business, but includes the business of effecting and carrying out contracts of insurance against risks of the persons insured, such as:

- a) Sustaining injury as the result of an accident of a specified class;
- b) Dying as the result of an accident of a specified class; or
- c) Becoming incapacitated or dying as a consequence of disease or of a specified class of disease, where the contracts are expressed to be in effect for a period of less than five years.

‘Governing Instrument’ means one or more written agreements, instruments, bylaws, prospectuses, resolutions of directors or managers of a limited liability company, or registers or other documents (including electronic records) that set out the rights, obligations and interests of account owners and beneficial owners in respect of a segregated account.

‘Insurance Act’ means the Insurance Act 1978.

‘Insurance Business’ means the business of effecting and carrying out contracts by:

- a) Protecting persons against loss, or liability to loss, in respect of risks to which such persons may be exposed; or
- b) Paying a sum of money or providing money’s worth upon the occurrence of an event, and to include reinsurance business.

‘Limited Purpose Insurer or Limited Purpose Insurers’ means Class 1, 2, 3, Collateralised, IIGB and SPI Insurers.

‘Linked’ means referable by means of:

- a) An instrument in writing, including a governing instrument or contract;
- b) An entry or other notation made in respect of a transaction in the records of a segregated accounts company; or
- c) An unwritten but conclusive indication.

‘Minimum Margin of Solvency’ in relation to a particular class of business means the prescribed minimum amount by which the value of the assets of the insurer must exceed the value of its liabilities.

‘MSM’ means Minimum Margin of Solvency.

‘SAC Act’ means Segregated Accounts Companies Act 2000.

‘Segregated Accounts Company’ means a company which is registered under Section 6 of the SAC Act.

‘Special Purpose Business’ means an insurance business under which an insurer fully collateralises its liabilities to the persons insured through:

1. The proceeds of any one or more of the following:
 - a. A debt issuance where the repayment rights of the providers of such debt are subordinated to the rights of the person insured; or
 - b. Some other financing mechanism approved by the Authority.

2. Cash; and
3. Time deposits.

‘Special Purpose Insurer’ means an insurer that carries on special purpose business.

‘Statutory Financial Return’ means the return provided for in Section 18 of the Insurance Act.

‘Statutory Financial Statements’ means the accounts provided for in Section 15 of the Insurance Act.

APPENDIX 2 - CELL REPORTING SCHEDULES

SCHEDULE OF SEGREGATED ACCOUNTS

Enter Company Name
31 December 2022

Please Select
Select Currency
Rate of exchange used if not BMD/USD
SAC Schedule Applicable to:
Are SAC Balances Consolidated in Fin. Stmts

Ensure that all figures are included on a statutory basis. Items that require a Financial Statement check should be consistent with the respective line of the Financial Statements. Input the value from the financial statements and where a discrepancy is noted, include a comment explaining the difference.

Enter number of columns required. The number should be reflective of the number of cells and should not include the general account. (note only a maximum of 350 cells)

Schedule II

Cell 1

Cell 2

Cell 3

Cell 4

Cell 5

Total of Cells

General Account

Grand Total General Account and Total Cells

Financial Statement Check

Difference

Comment for Discrepancies Noted

(A) Cell reference number

(B) Cell name

(C) Direct insurer, reinsurer or both

(D) Total statutory assets

(E) Total statutory liabilities

(F) Statutory surplus

(G) Statutory capital

(H) Total statutory capital and surplus

(I) Net income

(J) Cash

(K) Quoted: bonds and debentures

(L) Quoted: equities

(M) Quoted: other

(N) Unquoted: bonds and debentures

(O) Unquoted: equities

(P) Unquoted: other

(Q) Due from affiliates

(R) Due to affiliates

(S) Net loss and loss expense provisions

(T) Prior year loss reserve development

(U) Reinsurance recoverable balance

(V) Cell is in run-off

(W) Currency used

(X) Cell to cell activity

(X.1) Cell to cell activity details

(Y) General cell to cell activity

(Y.1) General cell to cell activity details

(Z) Where a cell is in deficit, insolvent or subject to litigation, provide or attach details of remediation actions or update on proceedings

(Z.1) Additional capital support

(Z.1.1) Additional capital support details

(AA) Details of beneficial owners and their relationship to the underlying risk

(AB) Beneficial owner(s) relationship to the segregated account company ownership

(AC) Beneficial owner(s)

(AD) Beneficial ownership

(AD.1) Beneficial ownership details (if other is chosen)

(AE) Details of the principal jurisdiction of the underlying risk

(AF) Beneficial owner governing instrument

(AF.1) Beneficial owner governing instrument (if other is chosen)

(AG) Does beneficial owner governing instrument contain indemnity provisions

(AH) Does insurance/reinsurance agreement contain limited recourse language

(AI) Primary cell funding

(AJ) Limit of cell funding/collateral

(AJ.1) Limit of cell funding/collateral details

(AK) Enter a detailed description of the type of cell funding

(AL) What mitigates are in place with respect to operational risk

(AL.1) Lines of business written by premium written

(I) Statutory lines of business written

(II) Statutory lines of business written

(III) Statutory lines of business written

(IV) Statutory lines of business written

(V) Statutory lines of business written

Total gross premiums written

Total net premiums written

18

19

APPENDIX 3 – MANAGEMENT REQUIREMENT

The following procedures requirements are in support of the Agreed Upon Procedures:

Principal Representative Confirmation

The annual statutory submission will include a confirmation from the Principal Representative attesting that "To the best of my knowledge and belief, I hereby confirm that the Schedule of Segregated accounts has been prepared to accurately reflect the true position of each segregated account, as well as the overall financial standing of the Company, in accordance with applicable legislation. Furthermore, I attest that the collateral provided is adequate to cover all associated liabilities, with no discrepancies or deficiencies that could adversely impact the Company's financial position." This attestation shall be embedded within the Schedule of Segregated Accounts and shall be completed and signed annually by the Principal Representative as part of the Company's statutory filing, confirming management's ongoing responsibility for the accuracy and completeness of the Schedule.

Cell Deficit Requirement

For cells identified as being in deficit, a remediation plan should be provided to the auditors. This information should be kept current and updated as the cell progresses toward, and ultimately achieves, a remediated position.