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Life Conference 2023

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The Bermudian life market – the key to unlocking UK potential?

Clayton Chuah
Ankit Baweja

Agenda

1	**Why Bermuda**
2	**Bermuda Regulatory Regime**
3	**Strengths of Bermuda Framework**
4	**Bermuda & UK Relationship**
5	**Q&A**

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Why Bermuda

Centre of Excellence for Innovation, Risk Transfer & Capital Management

With over 350 P&C and Life insurers, the Bermuda re/insurance industry has built a track record of developing innovative solutions that respond to complex market demands.

Leader in Global Compliance and Transparency

Currently has established a tax information exchange relationship with more than 110 countries.

Recognised Around the World for its Regulation

One of the few jurisdictions formally recognized and approved by both the European Union and US insurance regulators.

A Global Leader Against Financial Crimes

One of only two jurisdictions (the other being the UK) with a high level of effectiveness in relation to its risk assessment and domestic coordination mechanisms.

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Long-Term insurers in Bermuda

Question 1

How many long-term insurers are in Bermuda?

- Option A - <30
- Option B - 30-60
- Option C - >60

Question 2

How many of you have worked with Bermuda market or have existing relations with Bermuda insurers?

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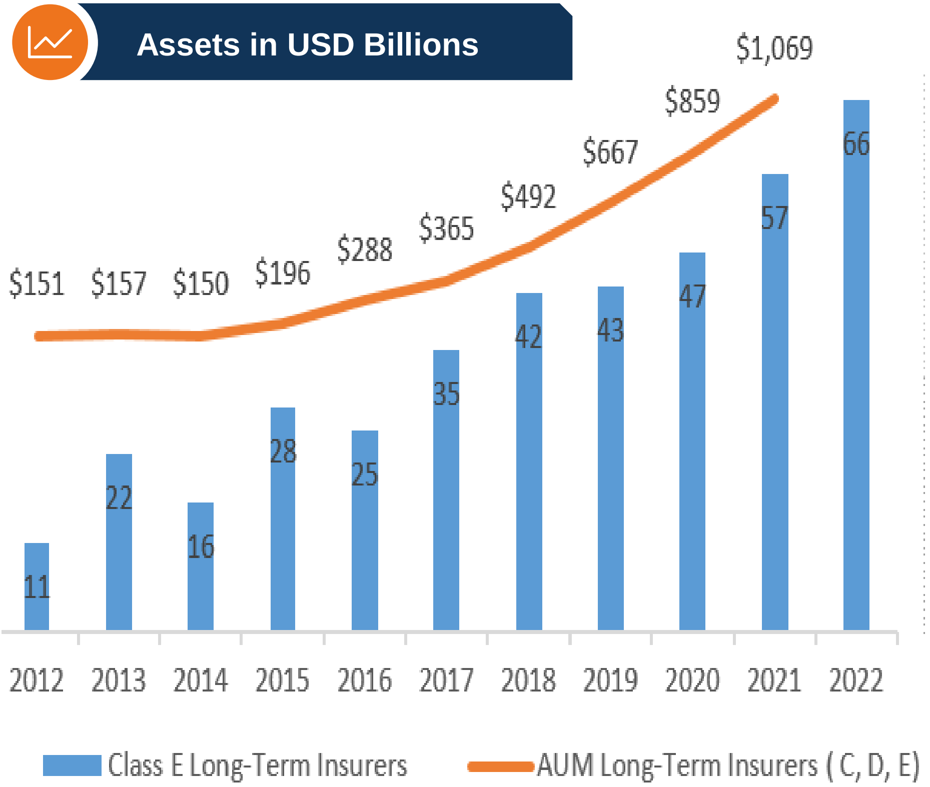
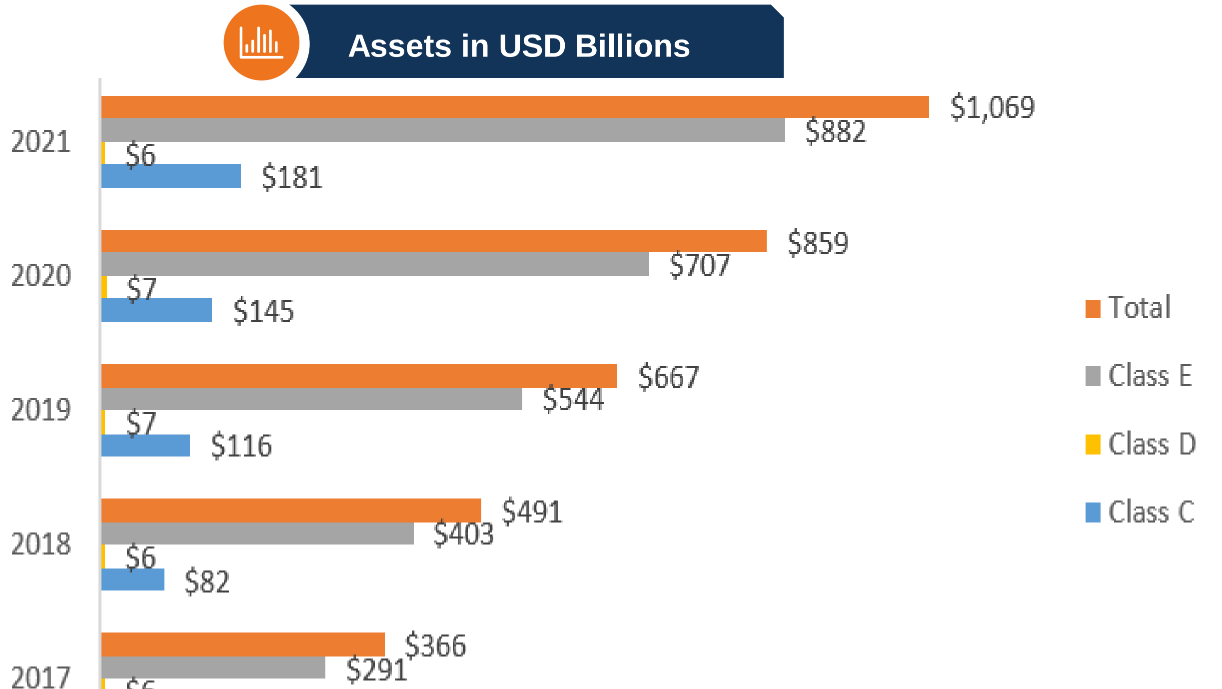
Growth of Long-Term Insurers in Bermuda





Source: BMA Annual Report 2022

From 2012 to 2021, the life sector witnessed a remarkable growth in assets under management, **reaching an impressive $1,069 billion**. This surpassed the combined assets of both the captive and P&C sectors.

During the same period, the **Class E Long-Term insurers**, representing the most substantial carriers with total assets exceeding $500 million, **increased by more than five times**.

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Overview of Bermuda Regulatory Regime

- The BMA oversees the regulation of LPIs and commercial insurers using a risk-based regulatory framework that focuses on financial strength and risk management practices.

- Bermuda's insurance regulatory regime encourages innovation and competition in the insurance market while ensuring that companies maintain a strong financial position to meet their obligations to policyholders.

- Bermuda has and maintains Solvency II equivalence, which effectively enables Bermuda domiciled insurers to conduct business in the EU on a level playing field as EU domiciled insurers. The BMA acts to sustain and continue to develop its risk-based regulatory approach that both (a) meets or exceeds international standards and (b) appropriately reflects the nature of the Bermuda market.

- Bermuda has a NAIC reciprocity agreement, a mutual recognition agreement between US state insurance regulators that streamlines the licensing process for insurance companies operating in multiple states. This allows Bermudian insurers to obtain licenses to operate in US states more efficiently, reducing regulatory costs and promoting efficiency.

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Bermuda Regime – Three Financial Views

The Bermuda SFS and EBS are submitted to the BMA as part of the regular BSCR filing requirements

GAAP

GAAP is the set of accounting principles followed globally, with specific guidelines for revenue recognition and expense allocation.

Bermuda SFS

Statutory financial statements (SFS) prepared in accordance with the statutory requirements of the BMA, including a balance sheet, income statement, cash flow statement, and accompanying notes.

Bermuda EBS

Economic balance sheet (EBS) refers to a financial statement that presents the economic or fair value of an entity, rather than their historical cost or book value.

Adj. Prudential filters

Goodwill and VOBA Valued at zero.

Other intangibles Value of future economic benefits flowing to insurer, only if separable and evidence of similar exchange transactions; zero otherwise.

Prepaids and deferred expenses Valued at zero.

DAC Valued consistent with GAAP

Adj. Technical provisions

Policyholder liabilities PV of cash flows, discounted and risk margin (Technical Provisions)

DAC Valued at zero for EBS

Deferred tax assets/liabilities Valued consistently with GAAP as long as the asset/liability is valued the same under EBS.

BSCR data

ECR Ratio = Available Capital / Required Capital

*Enhanced Capital Requirement **(120%)**

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EBS Technical Provisions

Under EBS, best estimate cash flows are to be discounted at a rate reflecting the time value of money plus an appropriate illiquidity premium. It is particularly desirable for long-term insurance contracts to use actual asset portfolio yields as a reference rate, in order to appropriately reflect the company's ALM strategy in the calculated technical provisions.

Methodology

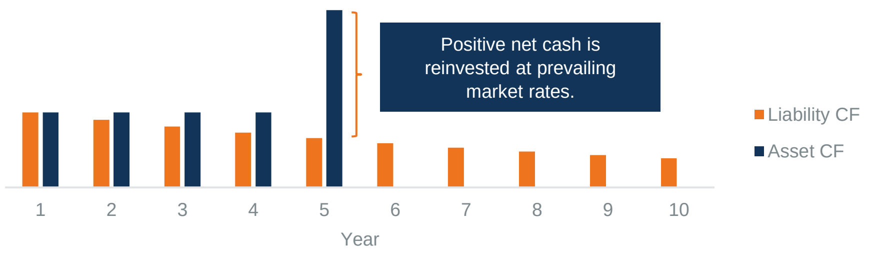
Standard approach: the BMA prescribes discount rates reflecting a risk-free rate plus illiquidity premium. This is generally not appropriate for long-term insurers.

Scenario-based approach: the insurer uses the actual portfolio of assets assigned to a block of business (as well as any projected reinvestments) to determine yields net of default costs.

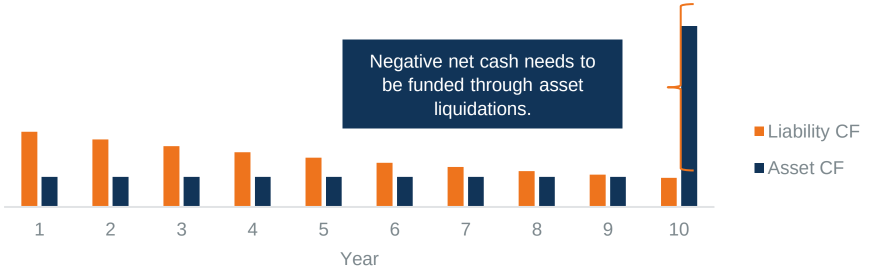
The BMA prescribes eight interest rate scenarios that are calibrated to an approximately one sigma stress. The stresses are intended to adjust for any mismatch between asset and liability cash flows.

Under each scenario, the insurer is required to determine the amount of assets required to cover base liability cash flows (i.e., replicating portfolio approach), considering as necessary their reinvestment. The BEL is set to the largest such result across all scenarios.

Too short: Asset maturities subject to **reinvestment risk in falling rate scenarios**



Too long: Asset liquidations subject to **price risk in rising rate scenarios**



Key takeaways: The Scenario-based approach rewards insurers that have well-matched asset and liability cash flows. A perfectly matched portfolio is immune to interest rate changes under the Scenario-based approach. Well-matched portfolios generally yield lower BEL under the Scenario-based versus Standard approach, and vice versa for poorly matched portfolios. While the TP fluctuates with yield curve movements, these are offset by corresponding movements in the asset portfolio, and the capital impact is therefore minimal for well-matched portfolios.

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Registration of Insurers in Bermuda

Insurer Categories

- **Limited Purpose Insurers (LPI):**
  Class 1, 2 & 3; Special purpose instruments; Collateralized insurers
- **P&C commercial:**
  Class 3A,3B
- **Life Commercial:**
  Class C, D &E

2023

44

- **37 - LPI**
- **2 - P&C**
- **5 - Long-term**

2022

65

- **42 - LPI**
- **12 - P&C**
- **11 - Long-term**

2021

59

- **42 - LPI**
- **6 - P&C**
- **11 - Long-term**

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Strengths of the Bermuda Framework

Solvency II Equivalency and NAIC Reciprocity

Prudent and Collaborative Regulator

Strong Network of Industry Experts

Economic View for Managing Insurance Business

Consultation Paper – Changes to current landscape

Critical Dates

Dec 2022
Publication of Notice to the Industry

Feb 2023
Consultation paper released to industry for comment & to provide field testing information to the BMA

August 2023
Publication of CP2 from the BMA with a second round of field testing.

1 January 2024
Proposed Enhancements will come into effect on 1 January 2024. Note Grandfathering arrangements.

Companies with Existing SBA approvals will not need to reapply for new business unless there are material changes to the business/risk profile.

Dec 22 → 24 Feb 23 → Aug 23 → 1 Jan 2024

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Summary of qualitative implications of the proposed BMA enhancements

Regulatory enhancements impact various actuarial, investments, and risk management functions

Investment Management, SAA and Performance analysis

The CP introduces implications that need to be considered on both the asset and Liability side of the balance sheet. New limitations on assets and new reserve/capital requirements change the risk-return assessment.

Additional Regulatory Reporting

Proposed changes include significant additional reporting requirements, specifically in the area of Scenario-Based Approach applications. This is only applicable to new SBA applications.

Additional Modelling Requirements

Actuarial modeling teams will need to be adapted to reflect the more rigorous explicit asset sales and purchases modeling, modeling of all asset optionality, and nested projections for shock-based calculations that will be required.

Liquidity Risk Management Policy

Insurers will have to put in place various measures to manage liquidity – this includes liquidity metrics, governance framework, and stress testing requirements.

Compliance and Model Risk Management

Governance for managing model risk will need to be set up across all levels of the organization, all the way to the Board level. The specific elements of MRM programs have been outlined by the BMA.

Bermuda and UK relationship

Full Equivalence

Bermuda received full equivalence under SII Equivalence in 2016, concluding a long effort and making a pathway for Bermuda re/insurer to be on the same level playing field as EU/UK insurers.

Strong Cooperation

Recent agreement between ABI and ABIR strengthening the cooperation on issues such as climate, cyber and DEI.

Regulation Agreements

Recent consultation paper issued by BMA proposing changes to the calculation of TP of insurers and insurance group.

The proposals fall into three main categories:

- updates to the risk margin,
- scenario-based approach and
- discount curves

PRA Consultation Paper – Funded Reinsurance

Likely to affect only a limited group of life insurers involved in the BPA market. However, for these insurers, the proposed changes hold substantial significance, potentially resulting in more prudent reserves and stronger risk management.

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Questions?

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Thank you