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BMA Consultation Paper: *Proposed Enhancements to the Regulatory Regime for Commercial Insurers* (CP2)

Connecting the Dots: Summary of the Governance and Risk Management Factors

The recent announcements by the BMA on the changes to the regulatory regime have sparked widespread interest and collaboration between the regulator and market participants. There has been a greater focus on the impact to the actuarial models and assumptions (specifically with regards to the Scenario Based Approach (SBA)), BSCR impact and Section 6D Enhancements. In this summary, we take a step back and assess these changes from a Governance point of view, but more specifically look at how this will impact your internal audit function, and the three lines of defense as a whole. Join us as we embark on the journey to connect the dots on what these changes mean for your company's Governance and Risk management functions.

CP2 Timeline

8 Dec 2022 — Jan 2023 — 24 Feb 2023 — 28 July 2023 — 1 Jan 2024 — Where we are now — 31 March 2024

8 Dec 2022
BMA published a notice informing stakeholders about targeted enhancements to Bermuda's regulatory and supervisory regime for commercial insurers primarily focused on long-term (life) insurers.

Jan 2023
BMA required prior approval of all long-term block reinsurance transactions and an accompanying comprehensive information set dealing with a range of topics to facilitate the approval. (See CP2 introduction point no4)

24 Feb 2023
The Authority published a consultation paper on proposed enhancements to its regulatory regime and fees for long-term commercial insurers (CP1).

28 July 2023
The authority published a second consultation paper (CP2) taking into consideration feedback received on the first paper.

1 Jan 2024
The new Scenario Based Approach (SBA) changes will apply immediately to all new business that is written after the 1 January 2024 changes. (i.e. there will be no transition period for new business beyond 2023)

31 March 2024
The BMA intends that the new regulatory requirements will be effective from the first filing date post implementation of 31 March 2024.

Effective 31 March the following enhancements will take effect (CP2 section reference included). We draw your attention to the areas that include updates from a Governance point of view (Indicated by the Stars below, which we will further elaborate on in the upcoming weeks):

(Section 2.2) - SBA approval requirement ☆
(Section 2.3) - Liquidity risk management requirements ☆
(Section 2.4) - Requirements for demonstrating lapse risk is not significant.
(Section 2.5) - Assets with optionality
(Section 2.6) - Changes on sellable assets
(Section 2.7) - Changes to default and downgrade cost assumptions ☆
(Section 2.8) - Guidance on liquidity and transaction costs ☆
(Section 2.9) - Affiliated investments.
(Section 2.10) - Reinvestment and disinvestment strategies requirements
(Section 2.11) - Ring-fencing requirements for assets backing the SBA BEL
(Section 2.12) - Documentation requirements ☆
(Section 2.13) - Data requirements ☆
(Section 2.14) - SBA governance requirements ☆
(Section 2.15) - Model risk management requirements. ☆
(Section 2.16) - SBA enhanced reporting requirements.
(Section 2.17) - Accountability requirements. ☆
(Section 2.18) - Spread caps on assets that are not generally accepted.
(Section 2.19) - Clarifications.

The Scenario Based Approach is a tailored and dynamic approach and, therefore, quite demanding compared to other reserving approaches when it comes to implementation. In practice, this means that a significant investment is needed in governance, risk management systems, models and people.

Model Risk Management is the most significant update that will impact governance considerations.