

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

Connecting the Dots | CP2 Governance and Risk Management Series | Part 2

Part 2 of Deloitte's Connecting the Dots | CP2 Governance and Risk Management Series will summarize the key updates to the regulatory regime as outlined in the following sections of the BMA's consultation paper, Proposed Enhancements to the Regulatory Regime for Commercial Insurers:



**Section 2.11**  
Ring Fencing for Assets  
Backing SBA / BEL



**Section 2.12**  
Model Documentation  
Requirements



**Section 2.13**  
Data Requirements

### Section 2.11 – Ring Fencing for Assets Backing SBA / BEL

The scenario-based approach uses the actual portfolio of specific assets assigned to back specific liabilities being valued under the SBA. The BMA has proposed separate identification and reporting of assets assigned to back the SBA BEL and a requirement that such assets **shall not be used or pledged for any purpose other than meeting the policyholder liabilities** for which the assets are assigned.



#### Key Control

Insurers are expected to implement controls to ensure that **assets backing the SBA liabilities are only exposed to and used to meet payment of the liabilities** being valued under the SBA.



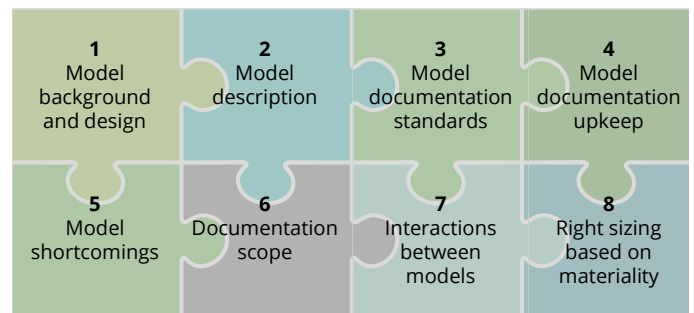
**Alert:** The assets assigned to back the liabilities being valued under the SBA cannot be used to cover losses arising from other activities of the insurer.



**Alert:** The BMA requires Insurers to explain how they assign specific assets to back specific liabilities and to justify any fungibility assumed across SBA models

### Section 2.12 – Documentation Requirements

As part of the regulatory update the BMA has also introduced model documentation requirements for the application of the SBA. These documentation requirements can be broken into **8 categories**:



**The documentation should allow a knowledgeable third party to:**

1. Understand the design and details of the model, assess materiality of the assumptions, identify the limitations, and showcase compliance with the regulatory requirements.
2. Understand the Scope/ structure/ theory/ data/ assumptions/ expert judgement/ parameterization/ results/ validation/ model changes/ model governance/ model policies, including key software, external models and data used (including the reason of their use)

**Documentation should:**

3. **Adhere to a certain standard** that defines the approach to documentation aspects such as: roles/ development/ sign off/ update and the review process.
4. Well structured, complete, be kept up to date & include an **inventory of all documents relating to the models** (and model Governance).
5. Identify the main **limitations/ simplifications** and **weaknesses** of the model.
6. Apply to all aspects of the **model lifecycle**: development/ testing/ ongoing monitoring/ review/ validation/ deliberation and escalation to the board committees.

7. Clearly show how the model for the BEL (Best estimate Liabilities) and technical provisions calculation **interact with other models** (being able to understand the process end-to-end may help spot places where risk management may be weak)
8. Consider the materiality of each model area and the level and detail of the documentation should be proportionate. There should also be an **independent challenge** to determine how the proportionality principle is applied to **avoid risk leakage**.

## Section 2.13 – Data Requirements



**Alert:** Insurers shall ensure that they have an approved **data policy** in place that covers completeness, accuracy, appropriateness and external sources:



Data used in the calculation of technical provisions should meet the following:

**3 minimum requirements** to satisfy the **completeness** aspect:

- Data should have sufficient historical information to assess characteristics of the underlying risks and to identify trends.
- Data should be available for each of the relevant homogeneous risk groups used in the technical provision calculation, and
- No relevant data should be excluded without justification.

**4 minimum requirements** to satisfy the **Accuracy** aspect:

- Data should be free from material errors.
- Data used from different time periods should be consistent.
- Data should be recorded timely and should also remain consistent over time.
- Data extensions, capping or modification should be documented and justified.



**Alert:** The process for dealing with outliers and data smoothing should be performed prudently such that there is no material underestimation of the technical provisions.

**5 minimum requirements** to satisfy the **appropriateness** aspect:

- Data has to be consistent with the purpose of which it will be used.
- The amount and nature of the data should not include a material error.
- The data is consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them.
- The data appropriately reflects the risk to which the insurer is exposed.
- The data is used consistently over time.



**Alert:** Where data is not used consistently over time a description of the inconsistent use and its justification should be documented and disclosed in the SBA Memo, the approved actuary's opinion, and report.

Data from external sources can be used, if **in addition** to the requirements listed under the **completeness and accuracy** headings, the following **5 requirements** are also met:

- The Insurer can demonstrate that the external data is more suitable than data exclusively available from internal sources.
- The origin and the assumptions or methodologies used to process the data is known.
- The Insurer tracks trends and variations in the data over time.
- The data used reflect the characteristics of the insurer's portfolio.
- The Insurer should be able to demonstrate what other data could have been used, its impact and why it was not chosen.



**Alert:** Where the requirements for external data cannot be satisfied (e.g., due to external data being proprietary) an assessment needs to be carried out by the independent control function to assess the materiality, and is subject to annual review by the approved actuary and disclosed as part of reporting



**Key Control**

Data controls & checks carried out on data used to calculate technical provisions, including an assessment of why they are considered adequate and appropriate should be formally documented.

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