Monday, 23 December, 2024

CONSULTATION PAPER

Proposed Enhancements to Public Disclosure Regime: Public Disclosure of Assets and Liabilities for Commercial Long-term Insurers

Comments to be received by 28 February 2025

Contents

INTRODUCTION

1.1 This Consultation Paper (CP) outlines the Bermuda Monetary Authority's (Authority or BMA) regulatory proposal to publicly disclose the assets and liabilities (together known as 'disclosure requirements') of Bermuda long-term commercial insurers registered as Class C, Class D and Class E insurers (long-term insurers) under Section 4 of the Insurance Act 1978. This initiative forms part of the Authority's commitment to enhancing the public disclosure regime and promoting transparency for the benefit of policyholders and other stakeholders.

1.2 The primary objective of this proposal is to enhance the accessibility and granularity of asset-related disclosures. The detailed disclosure of long-term insurers' assets will facilitate more informed decision-making by policyholders and other relevant stakeholders by providing insights into the composition and risk profile of insurers' investment portfolios.

1.3 A prudently managed long-term insurer is expected to align its investment strategy with its liability profile. Factors such as interest rates, which affect the value of investments, will also impact the value of liabilities. Therefore, it is important that disclosures cover both liabilities and assets. The Authority proposes that long-term insurers publicly disclose their liability profile in a way that allows interested stakeholders to assess the appropriateness of their investments in relation to their liabilities.

1.4 The Authority has attached to this CP, an illustrative proposed standardised reporting template, which will be used for the public disclosure of both assets and liabilities.

1.5 Consultation on the draft rules governing the disclosure requirements will commence in the first quarter of 2025.

1.6 The Authority invites feedback from stakeholders on the proposed framework, particularly regarding the potential challenges and impacts of this public disclosure requirement. Comments should be addressed to **riskanalytics@bma.bm** no later than 28 February 2025.

1.7 The BMA intends the new requirements to become effective on 31 December 2025. However, for registrants who choose to volunteer, the Authority will publicly disclose their assets and liabilities starting from 31 December 2024.

BACKGROUND

2.1 The BMA has been working to enhance its disclosure and transparency regime to align with the evolution and developments of the insurance industry while serving the needs of the Bermuda market. As part of this initiative, the Authority has, over the past several years, implemented requirements for all Bermuda-registered commercial insurers and insurance groups to publish Financial Condition Reports on their websites. In addition, the BMA has published all general business and long-term insurers, and insurance groups' Audited Financial Statements and Declarations of

Compliance on the Authority's website. This has enabled the public to gain insight into the financial condition of Bermuda insurers and groups.

2.2 The Bermuda market reflects the trend that has been observed globally where the life and annuity insurance sector has increased allocation to illiquid, hard-to-value assets that are non-publicly traded and can be more complex than liquid traded assets. To address the risks involved, the BMA has intensified its oversight of Bermuda's long-term insurers, ensuring these risks are well-understood, managed and governed appropriately. The Authority has also enhanced its regulatory requirements and investment reporting to provide visibility of exposure to illiquid and other non-traditional assets. Building on these changes, the BMA proposes to further enhance its public disclosure regime by requiring its long-term insurers to disclose their assets and liabilities.

2.3 In this context, the Prudent Person Principle (PPP), as outlined in the Insurance Code of Conduct, plays a critical role. The principle requires that an insurer, in determining the appropriate investment strategy and policy, may only assume investment risks that it understands and can properly identify, measure, respond to, monitor, control and report on while also taking into consideration its capital requirements and adequacy, short-term and long-term liquidity requirements and policyholder obligations. Further, long-term insurers must ensure that investment decisions have been executed in the best interest of their policyholders under both normal and stressed conditions.

2.4 The BMA has recently published a CP[1] outlining its expectations relating to the application of the PPP. The CP reflects the Authority's supervisory experience with long-term insurers, particularly concerning their increased investments in non-publicly traded, illiquid, hard-to-value and generally less transparent structured credit among other bespoke and non-traditional assets and related party-originated assets. The public disclosure of investments, therefore, builds on this (amongst other enhancements) and serves as an essential mechanism for the long-term insurers to disclose and for the public to evaluate the appropriateness and sufficiency of long-term insurers' investment portfolios in meeting policyholder obligations as they fall due.

2.5 Given that a long-term insurer's investment strategy is developed with consideration of its liability profile, the BMA is of the view that the proposed public disclosure requirement should also extend to liabilities. Disclosing liabilities will enable market participants to form a more comprehensive view of the appropriateness of the assets backing those liabilities by assessing factors such as the liquidity of both assets and liabilities, duration matching and the diversification of risks, among other considerations.

2.6 Extending public disclosure requirements to liabilities, in addition to assets, will provide stakeholders with the information needed to evaluate the financial soundness, risk exposure, and long-term stability of long-term insurers. This dual approach ensures that both sides of the balance sheet are transparent, further reinforcing market discipline and promoting financial stability.

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[1] Proposed Instructions and Guidance on the Application of the Prudent Person Principle

2.7 In summary, the proposed public disclosure of assets and liabilities responds to the broader global trend and structural shifts in the life and annuity sector, which has seen an increased appetite for illiquid, hard-to-value assets that are non-publicly traded and can be more complex than liquid traded assets. The proposed disclosure will require long-term insurers to provide, and the BMA to disclose, a detailed breakdown of their investments and information about how their investments align with their policyholder liabilities. The disclosure is intended to enable the wider public, market participants and other stakeholders to gain better visibility and understanding of the types of investments, nature of assets, and asset liability management of each individual long-term insurer.

PROPOSALS TO ENHANCE PUBLIC DISCLOSURE REQUIREMENTS

Proposal 1: Public disclosure of assets

3.1 The BMA proposes to publicly disclose assets of all commercial long-term insurers (i.e., Class C, Class D and Class E) that carry on long-term business (collectively known as “long-term insurers”).

3.2 The disclosed information will be presented on a consolidated basis. It will encompass all assets held by the long-term insurers, including but not limited to equities, fixed-income securities, mortgage loans, derivatives, alternative investments, structured assets and other assets such as deferred tax assets. Assets held on cedants’ balance sheets under Modified Coinsurance, Funds Withheld arrangements and/or similar collateralisation arrangements, will fall within the scope of this proposal.

3.3 The BMA's supervisory experience has shown that affiliated, related or connected party assets (collectively known as “affiliated assets”) can be complex and prone to a potential conflict of interest, creating additional risks and governance challenges. Paragraph 33 of Part 4 of the Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Amendment Rules 2024 requires prior written regulatory approval from the Authority for all affiliated assets. As part of the proposed disclosure framework, the affiliated assets will also be publicly disclosed, enhancing transparency on exposures that may present unique and potentially higher risks due to their interconnected nature.

3.4 The proposed framework mandates that long-term insurers publicly disclose their assets using a unique identifier, such as the **Committee on Uniform Securities Identification Procedures (CUSIP)** identifier, which identifies each security. For assets with no unique security identifiers, position-level disclosures shall be required. This level of disclosure will allow for a detailed analysis of the issuer, issuance type, asset class, sectoral exposure, interest rate, affiliation and other relevant risk factors associated with the individual assets.

Are there specific challenges that long-term insurers may face in complying with the proposed public disclosure of assets?

Proposal 2: Public disclosure of liabilities

3.5 The BMA proposes publicly disclosing the reserves held by long-term insurers at a product-type level. The disclosed information would encompass currency, gross and net reserves, reinsurance recoverable, average duration, and year-on-year change in reserves.

Are there specific challenges that long-term insurers may face in complying with the proposed public disclosure of liabilities?

Proposal 3: Additional Asset Liability Management (ALM) Disclosures

3.6 In addition to the quantitative information, and in order to give market participants a clear and holistic view of their business activities, the BMA propose that long-term insurers provide disclosures that offer insights into the appropriateness of their investment strategies, liquidity adequacy, investment risk management practices and an assessment of how market conditions will impact their portfolios. These disclosures should include:

3.5.1 A brief assessment of the suitability of the asset allocation in relation to the nature, duration, risks and cashflow profile of the insurer's liabilities. This assessment should adequately cover how specific characteristics of the liabilities influence the insurer's asset allocation;

3.5.2 A description of how the insurer uses stress testing, sensitivity analysis or scenario analysis on its assets and liabilities to ensure financial resilience under different adverse conditions. Details on how the results of the stress testing exercise are integrated into the insurer's investment strategy should also be provided;

3.5.3 Comment on the liquidity of the asset portfolio, both under normal and stress conditions. This would include a brief description of any contingency measures in place to ensure adequate liquidity under adverse situations;

3.5.4 Overview of the risk management practices employed to reduce exposure to market, credit and liquidity risks. This should include information on the use of derivatives and other instruments, including a summary of internal policies governing their application;

3.5.5 Explanation of any significant changes in asset allocations, sectoral exposures or general shifts in the insurer's investment strategy over the year. This should include a brief forward-looking analysis of potential significant changes in the future; and

3.5.6 Any additional information regarding the insurer's asset management and ALM practices that may help stakeholders understand the appropriateness of the asset strategy, alignment between assets and liabilities, or any unique aspects of the insurer's business model.

ASSETS AND LIABILITIES DISCLOSURE FORMAT AND FREQUENCY

Proposal 4: Requirements for public disclosure of assets and liabilities

Long-term insurers will be required to submit public disclosures on an annual basis as part of the Capital and Solvency Requirements filing. The Authority has attached to this CP a proposed standardised reporting template which will be used for the public disclosure of both assets and liabilities. This will ensure uniformity in the presentation of data across the sector, thereby facilitating comparisons and ensuring consistent and reliable disclosures.

Are there specific challenges or barriers that long-term insurers may face in complying with the proposed public disclosure of assets and liabilities?

Are there any technical or practical impediments to completing the standardised reporting template in its current form?

CONCLUSION AND NEXT STEPS

6.1 In conclusion, the proposed introduction of detailed asset and liability disclosures represents a significant step forward in enhancing the BMA's public disclosure regime and aligning the jurisdiction's regulatory framework with leading international standards. The detailed disclosure of assets and liabilities will facilitate more informed decision-making by policyholders and other relevant stakeholders by providing insights into the composition and risk profile of insurers' investment and liability portfolios. By providing greater transparency into insurers' investment activities, these requirements will enhance market discipline and incrementally contribute to the overall stability of the global insurance sector.

6.2 The Authority welcomes feedback on the proposals set out in this Consultation Paper. Please submit comments by 28 February 2025 to riskanalytics@bma.bm.