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Draft Report Advises: Overall Solvency II Equivalence for Bermuda’s Commercial Insurance Supervisory Regime.

The European Insurance and Occupational Pensions Authority (EIOPA) today published its draft report providing advice to the European Commission on the equivalence assessment of Bermuda’s insurance supervisory system against the Solvency II framework.

The report advises that Bermuda is overall equivalent on each of the three assessment criteria for the commercial insurance sector. Commenting on the draft report, Richard Lightowler, Lead Partner – Insurance at KPMG in Bermuda, stated:

“This is a tremendous result for Bermuda. It reflects the substantial effort the BMA, and indeed the market, has made in the development and adoption of the enhanced regulatory regime in Bermuda as well as the appetite for both constituents to meet global standards.

Of real significance is the fact that the draft essentially provides for segmented equivalence, that is, equivalence for the commercial sector without requiring the unnecessary burden of a Solvency II equivalent regime for the captive sector. All constituents of the market should be able to take comfort that they will be appropriately regulated. The commercial sector will be required to meet the exacting standards of Solvency II, with the Class 1, 2 and 3 companies continuing to be regulated commensurate with their limited purpose and therefore risk. In my view this outcome truly reflects the concepts of risk-based and proportionate regulation.

Whilst a lot of work still lies ahead, particularly around economic balance sheet and long-term insurers who were scoped out of the report, this draft advice should go a long way to remove much of the regulatory uncertainty that has existed for some time. We should also not forget that a number of European regulators have themselves a lot of work to do ahead of Solvency II becoming effective. At a time when there is much turmoil in the financial markets and the temptation for over regulation is great, all market constituents should feel positive about this report.”

Whilst the EIOPA assessment team considered all aspects of Bermuda’s supervisory regime, the equivalence assessment is centred around three aspects of Solvency II, namely:

- Solvency (article 172 of the Solvency II Directive);
- Solvency in the context of European Economic Area (EEA) Groups (Article 227); and,
- Group Supervision (Article 260).

Highlights of the report for Bermuda are as follows:

Article 172 – Solvency

- **Overall equivalent for Class 3A, 3B and Class 4 insurers**

- Partially equivalent for Pillar 2 and 3 for Class 3B and 4. Not equivalent for Classes 1, 2, 3 and 3A – improvements required for certain Pillar 2 functions (internal audit, outsourcing, disclosure)
- Solvency requirements largely equivalent for Class 3A, 3B and 4 (subject to valuation methodology)

Article 227 – Solvency in the context of EEA groups

- **Overall equivalent for Class 3A, 3B and 4 insurers**
- Solvency requirements largely equivalent for Class 3A, 3B and 4 (subject to valuation methodology)

Article 260 – Group Supervision

- **Overall equivalent**
- Partially equivalent for supervisory coordination
- Partially equivalent for Pillar 2 and Pillar 3
- Largely equivalent for group solvency

EIOPA also issued its draft advice on the assessments of the other wave 1 countries, Switzerland and Japan. Advice on Switzerland was overall equivalent for Articles 172 and 260 and equivalent for 227. The advice for Japan was equivalent for Article 172, the only criteria on which it was assessed. KPMG will issue further commentary on the report as we continue to work through the detailed findings.

For further information on this report, or Solvency II Equivalency in Bermuda, please contact:

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PDF Attachment:

“EIOPA Equivalence Assessment – Bermuda.pdf”

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