

RECENT BERMUDA INSURANCE ACT AMENDMENTS

*(By Lynda Milligan-Whyte, Senior Partner of Lynda Milligan-Whyte & Associates,
Barristers & Attorneys, Hamilton, Bermuda)*

Insurance Amendments 2008

Classes of Insurers:

The Insurance Amendment Act 2008 came into force on 30th July 2008 and created three new classes of insurance license, Class 3A, Class 3B and Special Purpose Insurers. All Class 3 insurers or reinsurers qualifying for reclassification are required to submit an application for reclassification by 31st December 2008.

An affiliated (re)insurer currently registered as a Class 3 (re)insurer shall be registrable as a Class 3A (re)insurer if said (re)insurer is only assuming reinsurance from an affiliated ceding (re)insurer. An affiliated (re)insurer shall be allowed to assume non-affiliated reinsurance of up to 20% of its total net premiums written and continue to be registrable as a Class 3A. However, if an affiliated (re)insurer assumes in excess of \$50 million non-affiliated reinsurance, it shall be registrable as a Class 3B.

Connected business in this regard is defined as "risk which, in the opinion of the Authority, arises out of the business or operations of those persons or any affiliates of any of those persons". For the purposes of the reclassification project connected business shall be considered as related party business and shall not be included in the unrelated business percentage when determining the appropriate class of registration.

Solvency Margin Maintenance

The Bermuda Monetary Authority requires insurers to maintain strict minimum solvency margins, which vary according to the class of the insurers and the nature and risk of the business being conducted. For example, Class 4 companies, representing entities writing property/catastrophe or excess liability coverage, have a minimum solvency margin of the greater of \$100 million, 15% of net loss reserves and a sliding scale of percentage of net premiums.

The most recent amendments to the Insurance Act 1978 set out the provision for the Authority to issue Orders that set prudential standards for the enhanced capital requirements and capital and solvency returns with which reinsurers must comply in respect of the implementation of an enhanced risk-based capital model, the Bermuda Solvency Capital Requirement ("BSCR") and related disclosures.

GAAP Accounts

The recent amendment to the Insurance Act also supports the filing of GAAP financial statements by Class 4 insurers and provides for their publication.