Insights and Reflections on Asset Intensive Reinsurance in Bermuda

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Executive Summary

Over the past decade, demand for Asset-Intensive Insurance (AII) has increased significantly, driving a corresponding rise in Asset-Intensive Reinsurance (AIR). This growth in AII demand is fuelled by increasing demand for guarantee-type insurance and annuity products. Simultaneously, the insurance market has fallen out of favour with public investors, leading to heightened pressure for capital to be returned. The combination of growing AII demand (i.e., more risk-seeking guaranteed insurance products) and increased pressure for capital returns to shareholders (i.e., less capital available to underwrite insurance risk) has contributed to a significant and expanding retirement protection gap, estimated at USD 51 trillion in 2023.

As a result, insurers are increasingly seeking alternative sources of capital to support their underwriting capacity for AII. Private capital has emerged as a key avenue, with AIR serving as a critical mechanism to access this funding. Therefore, the need for capital to support AII underwriting capacity is the primary driver of AIR.

AIR reinsurance activity is observed both within and across borders. Over the past five years, the growth of AIR has been comparable between cross-border and domestic transactions. While cross-border AIR has expanded in absolute terms, the proportion of AII reinsured cross-border has remained relatively stable.

The complexity and long-term nature of life and annuity business expose insurers to evolving risks, including shifts in shareholder objectives, policyholder behaviour, investment conditions, and regulatory landscapes. Given these long-term uncertainties, AIR continues to be an indispensable tool for insurers, allowing them to mitigate the impact of these uncertainties and maintain policyholder protection. Bermuda continues to provide a well-established ecosystem that enables AIR to operate in a safe and sustainable manner over the long term.

As a founding member of the International Association of Insurance Supervisors (IAIS), the Bermuda Monetary Authority (Authority or BMA) upholds a credible and globally recognised regulatory framework that undergoes regular review. To address the unique characteristics of AIR, the BMA has implemented several regulatory overlays, including transaction approval processes, bilateral engagements, an asset approval process, liquidity stress testing, as well as proactive and intrusive supervision. Material regulatory requirements in terms of quantitative, qualitative, disclosures and disclosure requirements have been made over the years to ensure that our regime remains fit-for-purpose. The combined effect of these changes resulted in a material increase in the total asset requirements of Bermuda's Long-term reinsurers. The approved TAR from Bermuda reinsurers tends to be generally speaking, comparable to those of the cedents, which does not mean that they are always the same, higher or lower, but the differences can be identified, explained and justified. The BMA has also published several white papers to educate stakeholders and contribute to the broader understanding of AIR.

The Authority's reports indicate that Bermuda's AIR sector maintains a robust solvency position, with a median solvency ratio of 259% as of year-end 2023, which far exceeds the regulatory minimum solvency ratio of 100%. Additionally, many (re)insurers seek high financial strength ratings, with the typical Bermuda (re)insurer target solvency ratio approximating 200%. This demonstrates that Bermuda (re)insurers are not only well-capitalised but also do not seek to lower total asset requirements.

Supervisory recognition mechanisms such as equivalency assessments and periodic reviews help enhance prudential frameworks and overall supervisory practices' effectiveness. Bermuda is recognised as a Solvency II-equivalent jurisdiction and a National Association of Insurance Commissioners (NAIC) qualified and reciprocal jurisdiction. Its regulatory framework undergoes continuous internal and external assessment. Given the significant investment required by both

assessing parties and the BMA in these assessments, these supervisory recognition mechanisms—complemented by supervisory colleges and bilateral engagements, remain central to addressing prudential oversight challenges.

AIR technical provisions currently account for 5.3% of global life provisions, with Bermuda's share at 1.8%. This highlights that the amount of AIR in the jurisdiction is relatively small in terms of the global footprint. Combined with the fact that insurance is generally not systemic, this indicates that Bermuda does not create or exacerbate systemic risk. Indeed, reinsurers act as risk absorbers rather than risk transmitters. Bermuda AIR reinsurers have demonstrated resilience through various stress events, including the COVID-19 pandemic, geopolitical tensions, market volatility, and the unprecedented rise in interest rates, which led to spikes in policy lapses. Bermuda AIR reinsurers predominantly operate on a collateralised basis, maintain strong liquidity, and hold diversified, high-quality investment portfolios. The BMA continuously monitors AIR activities and trends to identify and mitigate any potential risks to the financial system.

The Authority fully observes the principles of the Insurance Core Principle (ICP) 13. However, its supervisory approach extends beyond merely meeting these principles. While ceding regulators have specific responsibilities under ICP 13, the BMA does not leave the entire burden on them. Instead, it ensures that Bermuda's reinsurers operate within a transparent, well-governed, and prudently managed framework. This is achieved through rigorous transaction approval processes, active information sharing via bilateral engagements and supervisory colleges, annual company-specific disclosures and industry-wide publications on the Bermuda market, among other processes.

1. Protection Gap and Capital Gap

1.1 Rising Demand for Guaranteed Retirement Income

A convergence of demographic factors, such as the growing number of retirees and economic factors, including higher interest rates, has increased demand for savings and retirement income insurance products, including traditional annuities. These products are commonly referred to as Asset Intensive Insurance (AII), which is characterised by being long-term in nature and having financial guarantees and encompassing a broad range of products. Asset Intensive Reinsurance (AIR) is the reinsurance of AII products. AIR has been used in the life and annuity sector for nearly half a century. The need for robust Asset Liability Management (ALM) is the distinguishing factor for AII/AIR products. It is rare for only investment risk to be transferred as part of an AIR transaction, most often, both asset and liability risks are transferred. Over the past decade, demand for AII has increased significantly, driving a corresponding increase in AIR. This demand arises in part due to changes in the guaranteed nature of conventional sources of retirement income (e.g., the shift from defined benefit schemes to defined contribution schemes) and the weakening of social security and pension regimes in various markets.

1.2 Rising Demand for Return of Capital to Shareholders

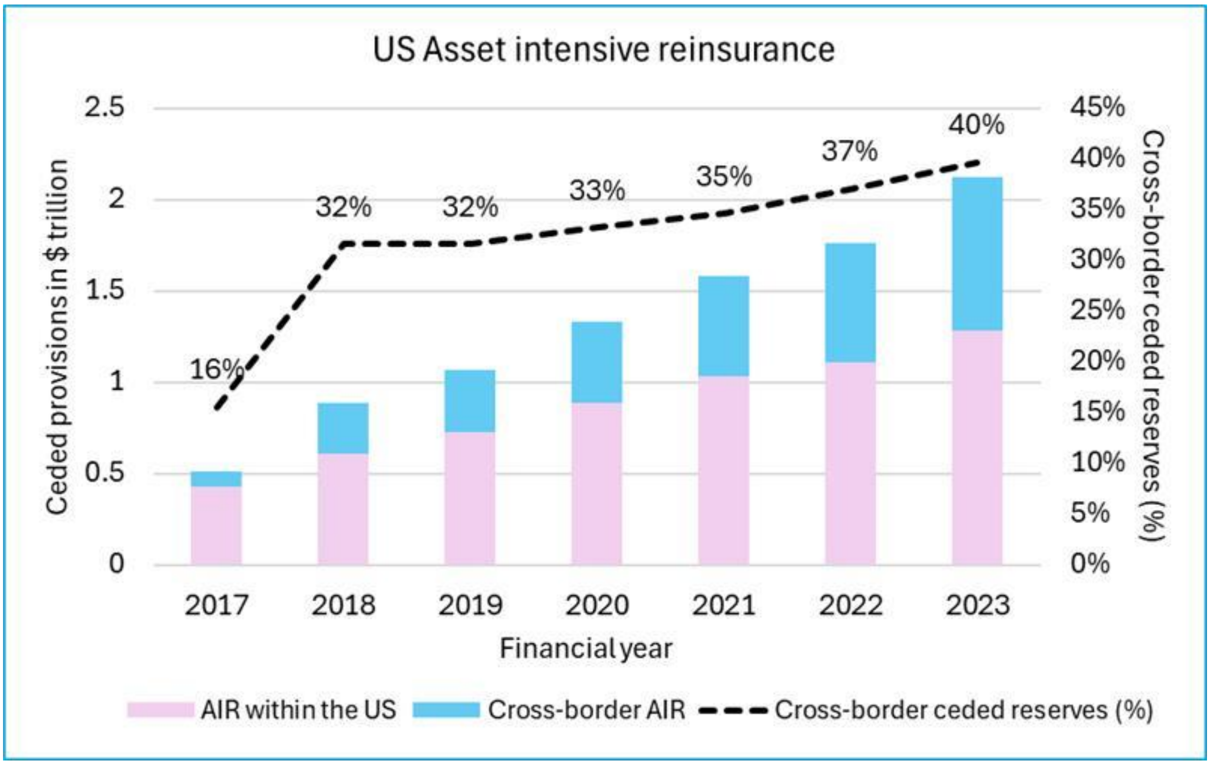
The 2008 global financial crisis led to an extended period of low interest rates, narrow credit spreads, and flat yield curves. During this period, life and annuity insurers often faced challenges generating sufficient returns, prompting them to cut down on growth and return capital to shareholders. McKinsey reported that in the last decade, public life and annuity insurers in Canada and the US gave about $275 billion to shareholders through $190 billion in share buybacks and $85 billion in dividends[1]. A significant contributor to the withdrawal of capital was the inability of the life sector to earn the returns needed to honour guarantees within insurance contracts while meeting the required minimum cost of capital. According to Swiss Re, the life sector fell short of its cost of capital by almost 5% points per year on average following the global financial crisis[1].

1.3 Rising Demand for Asset Intensive Reinsurance

The combination of increased demand for AII (i.e., more risk seeking to be insured) and rising demand for the return of capital to public shareholders (i.e., less capital to underwrite insurance risk) led to a huge and rising retirement protection gap, estimated at USD51 trillion by GFIA[2], in 2023. These figures highlight the significant impact of investor expectations on capital management and insurance/pensions protection within the life and annuity sector.

As a result of these developments, insurers are increasingly looking for alternative sources of capital to fund new business growth. Private capital has emerged as a key avenue, with insurers forming partnerships with other institutional investors to maintain financial flexibility and enhance underwriting capacity. These partnerships have been either with the insurer or reinsurer.

Therefore, reinsurers come in to provide capital riding on the partnerships they have with different private capital providers. Reinsurance has always been an integral tool for risk and capital management across both P&C and long-term sectors. Reinsurance is not limited to cross-border players. As an example, in the US, the level of AIR growth over the past half-decade has been comparable between cross-border and non-cross-border participants, as shown in the chart below.



[1] Report: Life insurance in the higher interest rate era: asset-savvy is the new asset-light
[2] https://gfiainsurance.org/topics/487/protection-gaps

As stated earlier, AIR's growth is consistent with AII's growth in markets where AII has grown. AIR both cross-border and domestic, has followed suit according to ACLI's analysis of NAIC data[3]. While US insurer assets described as foreign-owned increased since 2019, their percentage as a proportion of total US assets remained relatively stable at about 20%. This shows that the growth in AIR has been in response to AII growth and that the percentage reinsured in the US remains comparable with prior years.

2. Bermuda Ecosystem - What Makes Bermuda

Bermuda has long been recognised as a global leader in the insurance and reinsurance industry, with a history spanning more than 40 years. This deep-rooted expertise has positioned Bermuda as a key jurisdiction in addressing the evolving challenges in insurance, including the life insurance, savings, and retirement/annuity sectors.

The Life and Annuity insurance business is long-term and complex in nature. Promises are made, but they may take years to be fulfilled. Many things happen and change between the investment and regulatory landscapes change, the insurance experience improves or deteriorates and the shareholders' capital strength and objectives change—all these things that happen call for action to protect policyholders. The options available to an insurance company are very limited and reinsurance is often one of the only few options available. **Reinsurance is more than a risk management tool; it is an indispensable part of the insurance business.** It is, in a sense, the oil that keeps the bearings moving without wearing each other out. It acts as a pressure release valve that insurers can adjust up or down depending on pressure build-up. Failure to do so can result in the pressure overwhelming the system and the sector failing to deliver on its promises over the long term. What Bermuda has done is provide fertile ground for this important and indispensable piece of insurance to thrive and deliver in a safe and sustainable manner. A wide range of asset-intensive reinsurance businesses is seen in Bermuda, from those where insurers are seeking solutions for changes in the investment landscape, asset and liability management challenges, deterioration in insurance experience or policyholder behaviour, a business that is now non-core, to stable and permanent shareholder capital.

Bermuda's insurance market is very diversified across both the Property and Casualty (P&C) and long-term sectors. A diverse set of investors supply capital across these sectors and their sub-sectors over many years. It is often the case that investors who first provide capital in one area of the sector easily expand to other areas, leveraging their knowledge of the market and its regulatory and legal infrastructure. As a result, Bermuda has established itself as a one-stop shop for both investors shopping for risk and (re)insurers shopping for capital. This ability to mobilise capital with little friction underpins the Bermuda ecosystem. Key market participants are well acquainted with the jurisdiction's frameworks, which enable the protection of all parties and are designed to promote transparency, efficiency and financial stability.

Responsible innovation, i.e., sustainable innovation that delivers on its promises, has been a defining feature of Bermuda's insurance market. For example, the introduction of sidecars[4] has

[3] https://www.acli.com/about-the-industry/life-insurers-fact-book/2024-life-insurers-fact-book
[4] In long-term reinsurance, a sidecar is a fully regulated commercial reinsurer set up to support the primary reinsurer (also known as sponsor) by providing additional capital to assume a defined share of risk for specific blocks of business—typically those with significant asset-liability management components, such as

enabled (re)insurers to tap into **capital funding from diversified capital providers such as** pension funds, asset managers, family offices, sovereign wealth funds, other foreign insurers and high-net-worth individual investors. This is against the backdrop of a reduction in public capital in the insurance market. Sidecars allow investors to not only take risks but also pick the specific risks they have an appetite for while leveraging the established and scalable infrastructure the sidecar sponsor provides. This means investors who would otherwise not be able to own and run an insurance company and therefore not be able to provide capital can now do this without significant investment in systems, people and processes. This expands the pool available for (re)insurers to access capital and thus increases the long-term sector's underwriting capacity. Sidecars are commercial insurers and are subject to the full suite of the BMA's 3-pillar supervisory and regulatory regime. This series of papers will cover sidecars in greater depth in future instalments.

Bermuda has a deep **talent pool**. Its presence and access to specialised skills and top-tier firms/consultancies across accounting, actuarial and law firms ensures that companies operating in Bermuda have access to world-class advisory services. This concentration of expertise enhances the jurisdiction's ability to support complex capital and reinsurance transactions, making it a hub for sophisticated financial and risk management solutions.

Bermuda's **geographic location and global nature** further enhance its appeal. Situated in the Atlantic, Bermuda is well-positioned to serve most jurisdictions across the globe, making it an ideal base for international reinsurance operations and enhancing its ability to attract capital from anywhere in the world. Bermuda reinsurers take advantage of the global nature of the Bermuda marketplace to optimise risk management and diversification by mixing risks across different geographies and products.

3. Regulatory Enhancements

Bermuda's risk-based solvency regime, which is Full Solvency II Equivalent, has NAIC Qualified and Reciprocal Jurisdictional Status and is compliant with the Insurance Core Principles of the International Association of Insurance Supervisors provides a good basis to supervise AIR. The unique nature of AIR makes it important to require an additional layer of supervisory intensive measures for effective oversight. The BMA has made material supervisory and regulatory enhancements over the years, spanning across all three pillars of the regulatory and supervisory regime to ensure it remains fit-for-purpose.

In the last two years, for quantitative requirements, changes were made to the valuation regime, including technical, governance and disclosure changes, as well as prior approval of the use of the scenario-based approach and enhancements to our lapse and expense capital charges. These changes had a material impact on Total Asset Requirement (TAR) for asset-intensive reinsurers.

Regarding qualitative requirements, since January 2023, all closed block life reinsurance transactions must be approved by the BMA. **The Authority engages cedent regulators as part of the approval process and does not approve transactions with which regulators of the cedents are not comfortable.** The BMA also uses targeted prudential measures such as requiring higher levels of solvency, capital add-ons, reserve add-ons, restricting dividends, and imposing liquidity and capital maintenance arrangements to deal with any identified transaction-specific risks. Additionally, the BMA introduced the following changes: a high-bar approval process for affiliated and/or connected

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annuities and/or long-duration life insurance products. It is typically funded by third-party investors, such as asset managers, family offices or pension funds, seeking exposure to insurance-linked investments. Unlike sidecars in the non-life sector which are short-term (as defined under Insurance Core Principles 13.6.), AIR sidecars assume both asset and liability risk for the long-term and regulated the same way as any other AIR reinsurer.

party assets, enhanced liquidity and stress testing requirements and the requirement of a large portion of the market to prepare recovery plans. Finally, the BMA has issued a consultation paper on the *Application of the Prudent Person Principle,* which is meant to address observed shifts in the investment landscape specifically.

Regarding reporting and disclosure requirements, the Authority has introduced enhanced reporting for lapse, liquidity, and assets, requiring asset reporting at the CUSIP/position level. The BMA carried out thematic studies and published white papers on the Bermuda market: *Supervision and Regulation of PE Insurers in Bermuda*; *Bermuda Long-Term Insurance Market Analysis and Stress Testing Report*; *Liquidity Risk in the Bermuda Long-Term Insurance Market*; *Collateral Structures in the Bermuda Long-Term Insurance Market* and *Private Credit*. As importantly, the BMA published a consultation paper on *Proposed Enhancements to Public Disclosure Regime*. This paper proposes to require public disclosure of assets at the CUSIP/position level, information on product-level liabilities and additional ALM disclosures.

4. Regulatory differences

4.1 Analysis of AII and AIR Data

The Authority welcomes discussions about AII and AIR. However, these discussions have often been anecdotal, with minimal or no concrete data to support the viewpoints expressed, partly due to the limited practical experience with the reinsurance of the AII business. To address this and contribute to a better understanding of the structural shift and trend towards AII and AIR in the insurance industry, BMA has published reports on the Bermuda long-term market. Some key observations from the BMA data-driven reports are provided in the appendix to this paper.

Various regulatory bodies and external parties have shown a keen interest in understanding AIR, its risks and drivers for growth. One of the often cited reasons is that a key motivation of AIR is to leverage capital and reserve differences. The BMA's experience, through our review of transactions, bilateral engagements, and participation in various working groups at the international level, has been different in this regard. As detailed above, the demand for reinsurance capital capacity as a result of policyholder demand is the key driver for both domestic and cross-border asset AIR. Additionally, the Authority's data shows that most AIR transactions are collateralised through Funds Withheld (FWH) or Modified Coinsurance (ModCo) structures. The assets held as collateral in these structures are at least equivalent to the reserves calculated based on the cedent's reserving method. It is also common for FWH or ModCo accounts to be over-collateralised, meaning the assets held in these accounts exceed the reserves in the ceding jurisdiction.

Close ongoing collaboration between supervisors is crucial for cross-border reinsurance. This collaboration is essential for the effective supervision of multi-jurisdictional insurance organisations, especially when cross-border reinsurance is involved. Collaboration can take place through a formal supervisory college or periodic bilateral discussions between supervisory teams of the respective jurisdictions. One tool developed to aid in supervisory-to-supervisor collaboration efforts is the use of a TAR attribution analysis. This helps identify and assess differences in the TAR between ceding and reinsurer jurisdictions by both supervisors. Additionally, the Authority introduced transaction approval, both to review the risks and economics of the transactions and to share and discuss any TAR insights with ceding regulators to ensure there is transparency and a shared understanding of how the desired policyholder outcomes are achieved under our regime. The Authority takes this process seriously and no transaction is approved if concerns are raised by the ceding regulator. The approved TAR from Bermuda reinsurers tends to be generally speaking, comparable to those of the cedents, which does not mean that they are always the same, higher or lower, but the differences can be identified, explained and justified.

In addition, the collateral requirements proposed are reviewed and reinsurers are required to demonstrate that they adequately safeguard policyholder interests. The Authority reviews proposed asset allocations and, as appropriate, confirms that these align with the prudent person principle.

The long-term market insurance market analysis and stress testing report published in December 2024[8] showed that the sector had a robust solvency position with a median solvency ratio of 259% at year-end 2023. Notably, 259% is higher than the required minimum solvency ratio of 100% and most (re) insurers' target solvency ratio of 200%. This further confirms that Bermuda (re)insurers are not only well-capitalised but also that they are not seeking to lower total asset requirements. They are holding higher than regulatory minimums or their own specific targets. On an individual basis, firms often seek financial strength ratings and most are highly rated and well-positioned, capital-wise, to absorb the impacts of adverse financial market conditions.

The Bermuda Life and Annuity (re)insurers provide critical underwriting capacity and have continued to honour promises, paying out approximately $230 billion worth of claims since the pandemic (2020 year).

4.2 Supervisory Recognition Mechanisms

A key supervisory challenge that has been pointed out in relation to AIR is the existence of knowledge gaps in prudential frameworks that may hinder effective supervision. Obstacles to the exchange of information among supervisors also hinder the development of a holistic understanding of the risks associated with these transactions.

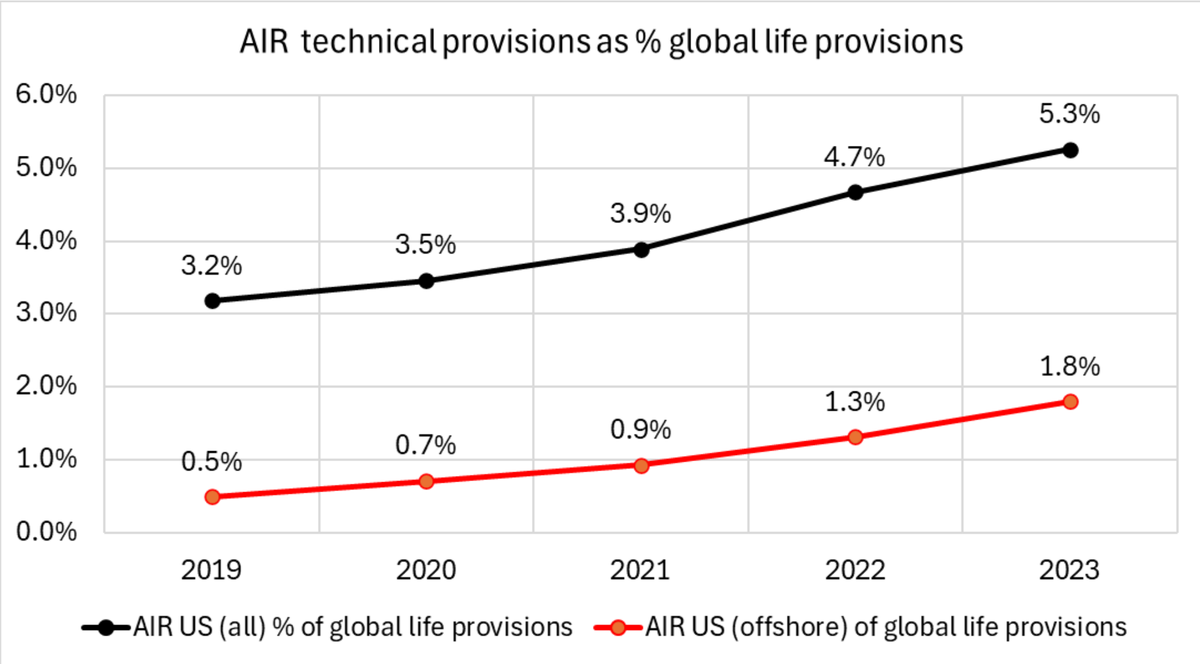
The BMA fully agrees on the importance of understanding various regulatory frameworks. The existence of supervisory recognition processes whose mechanisms and associated decisions are periodically reviewed to ensure regimes continue to be equivalent on an outcome basis is an important tool for enhancing prudential frameworks and overall effectiveness.. Insurance Core Principle 13 Reinsurance and Other Forms of Risk Transfer of the International Association of Insurers Supervisors (IAIS), particularly Standard 13.4, sets an expectation for all insurance supervisors. At a minimum, it requires that when supervising ceding insurers purchasing reinsurance across borders, the supervisor takes into account the supervision performed in the jurisdiction of the reinsurer. Further, ICP 13.4.3 points out that the supervisor can benefit from relying on supervision performed in the jurisdiction of the reinsurer. Moreover, IPC 13.4.4 states that where supervisors choose to recognise aspects of the work of other supervisory authorities, they should consider putting a formal supervisory recognition arrangement in place.

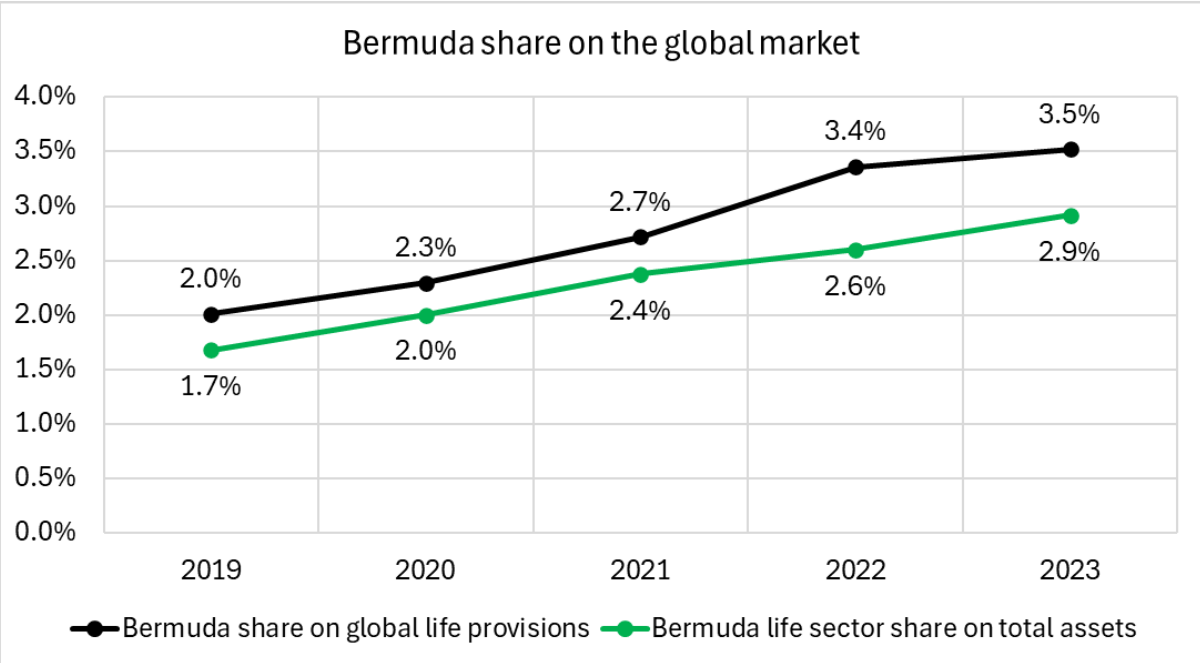
Bermuda is a Solvency II equivalent and National Association of Insurance Commissioners (NAIC) qualified jurisdiction with a framework that undergoes periodic external assessment.

The BMA believes that transparent and robust regulatory cooperation and information sharing are essential in supervising AIR. The Authority has shown a strong commitment to working with cedent regulators through group supervision (supervisory colleges and joint on-site reviews) and regulator-to-regulator requests. Also, as previously mentioned, the Authority requires approval of block transactions, which involves discussions with cedent regulators.

5. Financial Stability

Reinsurance is, by nature, a concentrated activity based on global diversification of risks. It requires economies of scale and pooling of risk. Nonetheless, from a financial stability perspective, the latest Global Insurance Market Report (GIMAR)[5], which highlights the outcomes of the IAIS annual Global Monitoring Exercise (GME) and the recently published IAIS Issues papers' structural shifts in the life insurance sector'[6] noted that "*due to the limited size of current exposure to AIR in the global insurance sector, the risk to global financial stability is limited at present*" i.e. AIR technical provisions, as a percentage of the global life provisions, are currently 5.3%, as published by the IAIS in the latest GIMAR[7] showing limited AIR at the global level. The percentages for Bermuda show an even smaller global footprint for the jurisdiction - (see charts below).





5 Global-Insurance-Market-Report-2024.pdf
6 Public-consultation-Draft-Issues-Paper-on-structural-shifts-in-the-life-insurance-sector.pdf
7 Global-Insurance-Market-Report-2024.pdf

Specific to Bermuda, about 80% of its reinsurance business is conducted on a collateralised basis, with assets in the majority of cases being held on the balance sheet of the cedent insurers. This further significantly reduces any potential build-up of concentration and or systemic risk exposure within the jurisdiction. Overall, the BMA considers the potential for Bermuda AIR to pose financial stability risk as extremely remote, considering also that the insurance industry is generally unlikely to create systemic risk[8]. Notwithstanding the relatively small size of AIR, the Authority, as part of its financial stability mandate, continually monitors AIR activities, trends and market developments, including evolving risks and business models to identify and mitigate any potential build-up that could heighten risks to the financial system at both domestic and global level[9]. In assessing such risk, the Authority takes into consideration, at the micro-level, that insurers and reinsurance vary in size, sophistication, risk management capabilities and solvency and liquidity positions, and from a macro-level perspective, that jurisdictions vary in terms of market depth, sophistication, number of insurers and reinsurers, regulatory regime, existence or absence of supervisory recognition mechanisms. Bermuda's long-term reinsurance market is a large and diversified market in terms of products, underwritten risks, number of insurers (close to 200 entities), and investment strategies. The BMA has rich systems and processes to track and monitor exposures on a jurisdictional basis, both ceded and assumed.

Furthermore, Bermuda insurers are required to carry out rigorous and comprehensive forward-looking stress tests, including on liquidity and lapses. The result of the latest BMA sectoral analysis report, i.e., *Bermuda Long-Term Market Analysis and Stress Testing Report*[10], showed that the sector had a robust solvency position with a median solvency ratio of 259%. On an individual basis, firms were well-positioned capital-wise to absorb the impacts of the prescribed adverse financial market stress scenarios. Overall, the sector demonstrated resilience to the stress tests.

Specific to the liquidity stress test, the latest BMA sectorial analysis report, i.e., "*Liquidity Risk in Bermuda Long-Term Insurance Market*"[11], showed that despite rising interest rates and the observed increase in investments in alternative assets by (re)insurers globally, Bermuda's long-term insurers generally have a business model that is naturally robust against liquidity challenges. In particular, the data showed that Bermuda's long-term insurers maintain a substantial portion of their assets in liquid forms, such as cash, corporate bonds and sovereign securities. This diversification against less liquid assets on the balance sheets results in long-term insurers in Bermuda having relatively high liquidity coverage ratios (median 418% post 1-200 years stress test), which indicate sufficient liquid assets that can be used to meet (immediate) outgoing liability cashflows in a stress event that impacts both assets and liabilities adversely.

6. Applicability of ICP 13 in Bermuda

The BMA's risk-based solvency regime aligns with international standards and applies the IAIS Insurance Core Principles (ICPs), including ICP 13, which governs reinsurance oversight. The BMA ensures compliance with ICP 13 through a structured supervisory approach for both cedents and reinsurers, addressing six key standards:

1. Reinsurance Programme Oversight

[8] https://www.soa.org/globalassets/assets/Files/Research/Projects/reviewing-systemic-risk.pdf
[9] The BMA participates and contributes to the IAIS annual GME, the exercise materially contributes to the BMA's identification of build-up and assessment of global systemic risk.
[10] Provide reference
[11] https://www.bma.bm/pdfview/9648

- Insurers must outline their reinsurance strategy for licensing in their business plan
- Supervisory engagement ensures alignment with risk and capital management strategies
- Annual filings provide relevant disclosures
- Reinsurers undergo similar oversight, including prior approval for life reinsurance block transactions

2. Internal Controls
   - (Re)insurers must implement effective risk management frameworks under the Authority's Insurance Code of Conduct
   - Group supervision rules require robust internal controls and reporting
   - The BMA assesses these controls through ongoing supervision and review of and action on regulatory filings
3. Economic Impact of Risk Transfer
   - The Bermuda valuation and solvency framework defines reinsurance treatment in reserving and capital requirements
   - Supervisors evaluate governance, contracts, and risk mitigation impact
4. Cross-Border Reinsurance Supervision
   - The BMA reviews reinsurance programmes, counterparties, and jurisdictional risks
   - It has the authority to request changes or impose capital add-ons for the risks emanating from reinsurance contracts or limitations in the capital reduction provided by reinsurance contracts if needed
   - Long-term reinsurance transactions require prior approval, with input from cedent regulators
5. Liquidity Management Considerations
   - Supervisory processes assess liquidity stress testing, contingency plans, and exposures from reinsurance
   - Liquidity impacts of transactions are reviewed as part of the prior approval process
6. Risk Transfer to Capital Markets
   - Reinsurance-linked securities are assessed within the broader regulatory framework
   - Asset-intensive reinsurers and sidecars face the same licensing requirements and regulatory oversight as other (re)insurer
   - Additional controls (e.g., dividend restrictions) may apply based on risk profiles

The Authority's supervisory approach goes beyond complying with ICP 13. While the ceding regulator has a duty to fulfil under ICP 13, the BMA does not leave this burden with them alone.

The BMA seeks to ensure that Bermuda's reinsurers operate within a transparent, well-governed, and prudent framework. The Authority assesses the recapture provisions in reinsurance agreements, particularly regarding asset-intensive transactions, to evaluate whether the assuming jurisdiction has appropriate legal and regulatory mechanisms to facilitate asset recovery if required. Indeed, the Authority has delivered successfully in this area in the past.

Further, most investments are in the ceding jurisdiction and governed under the laws of the ceding jurisdiction. The BMA also assesses that assets held on the Bermuda balance sheet are permissible in the ceding jurisdiction. Additionally, the Authority examines whether reinsurers implement effective measures to safeguard assets associated with assumed risks, ensuring they remain available to meet policyholder obligations. Structures such as funds withheld and modified coinsurance serve to ring-fence assets, in this case, making it easier for the ceding regulator to identify which assets back a specific block of business.

The BMA closely monitors concentration and interconnectedness across reinsurance counterparties and investment exposures to evaluate and mitigate potential systemic risks. Supervisors assess whether (re)insurers maintain diversified risk profiles, preventing excessive reliance on single counterparties under stress. Any noted risks or deteriorations are discussed bi-laterally with the ceding regulator and as part of supervisory colleges. As needed, the Authority conducts joint on-site with ceding regulators to ensure a shared understanding of risks and their management.

Furthermore, the BMA enforces transparency requirements, requiring reinsurers to provide detailed disclosures on their financial condition, reinsurance programmes, and capital adequacy through financial condition reports and GAAPs. All this benefits the cedent supervisor's oversight processes.

The transaction approval process takes into account both prudential considerations and the ceding regulator's requirements, concerns, or feedback. No transaction is approved if the cedent regulator has unresolved concerns.

Since 2023, the Authority has published several publications that share detailed information on Bermuda's long-term market, enabling cedent regulators to make their own informed assessments of the reinsurers and the jurisdiction as a whole.

Through continuous regulatory enhancements, the BMA ensures Bermuda's reinsurance framework remains robust, transparent, and aligned with global best practices.

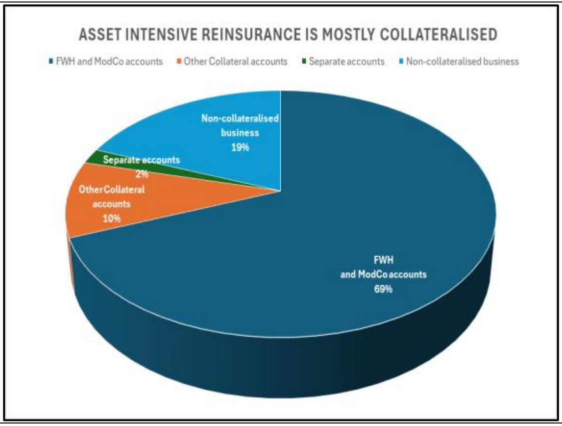
Appendix - Analysis of Data about Bermuda's Long-Term Market

The BMA welcomes discussions about AII and AIR. However, these discussions have often been anecdotal, with minimal or no concrete data to support the viewpoints expressed, partly due to the limited practical experience with the reinsurance of the AII business. To address this and contribute to a better understanding of the structural shift and trend towards AII and AIR in the insurance industry, the Authority has published reports on the Bermuda long-term market.

Key observations from BMA data-driven reports:

I. AIR is mostly collateralised

The majority of the long-term reinsurance business in Bermuda (80%) is conducted on a collateralised basis, primarily through Funds WithHeld (FWH), Modified Coinsurance (ModCo) and collateral trusts. The collateral structures are designed to mitigate reinsurance counterparty default risk and monitor the investment portfolio on an ongoing basis. Under the collateral arrangements, the assets themselves are not transferred to the reinsurer. The cedent retains the assets either on their balance sheet or in a collateral account ring-fenced for that specific cedent. The collateral custody account is typically maintained in the cedent's jurisdiction. Therefore, assets are not physically transferred to Bermuda.

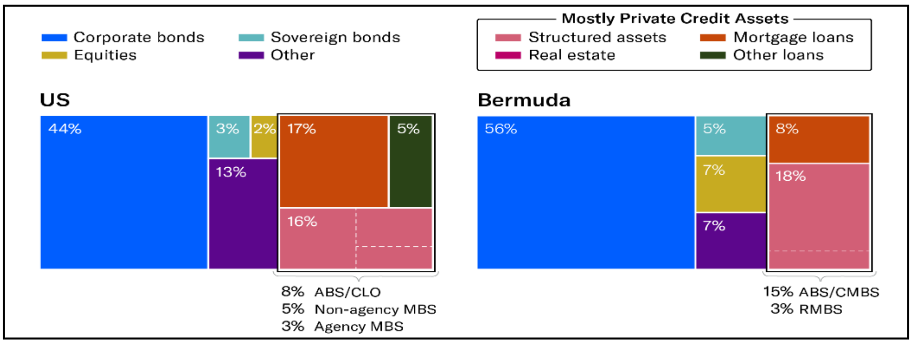


Benefits of collateral structures

- The ceding insurer sets investment guidelines
- The cedent directly monitors the assets' performance with real-time access during both stress and normal conditions
- Full transparency to the ceding insurer and its regulator
- Cedent has audit rights over the collateral account that they can exercise

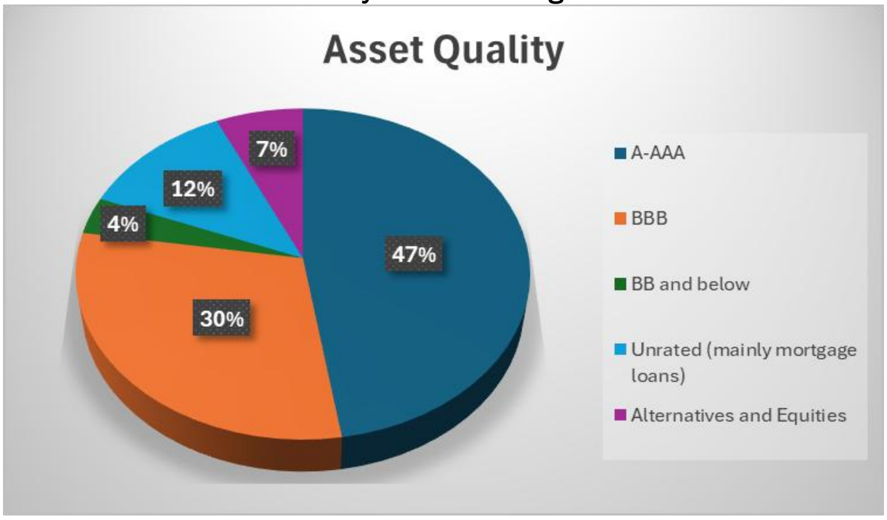
II. Asset allocations of Bermuda's Long-Term Insurers Mirror those of their US Counterparts

Life insurers in the US and Bermuda have relatively similar investment allocations. The chart below, taken from a study conducted by Moody's, shows the asset allocations[12] of long-term insurers in both the US and Bermuda[13]. About 70% of Bermuda's long-term market is business with the US.



[12] Private Credit –Deep dive on Direct Loans, CLOs, and Private Placements https://www.bma.bm/pdfview/9651
[13] Liquidity Risk in the Bermuda Long-term Insurance Market https://www.bma.bm/pdfview/9648

III. 77% of Assets Held by Bermuda Long-Term Insurers Are Investment Grade or Higher



IV. Bermuda Long-Term insurers' median liquidity ratio of 418% post a 1-200 stress