



Loss Reserve Specialist – Letter of Undertaking – BMA tightening the rules

The Bermuda Insurance Act 1978 (“the Insurance Act”) requires each Class 2, Class 3, Class 3A, Class 3B and Class 4 insurer, and when directed by the Bermuda Monetary Authority (“BMA”) a Class 1 insurer, to appoint an individual as a loss reserve specialist (“LRS”). The Guidance Notes, which were issued in 2006 by the BMA, set the criteria for and role of the LRS. Note #3 sets out “Fit and Proper Criteria and Approval Process For Loss Reserve Specialists” and Guidance Note #4 sets out “Role of the Loss Reserve Specialist”.

Guidance Note #4 requires any new candidate for LRS to provide the BMA with a letter of undertaking stating that (s)he will perform his/her functions in accordance with the Insurance Act and the standards of his/her relevant association. Notwithstanding the requirements in Guidance Note #4, up until this point, in many cases, a simple letter of acceptance of appointment from a LRS has been provided to the BMA at the time a company registers as an insurer or when there was a change of LRS.

Tightening the rules

The BMA is now insisting on the submission of a letter of undertaking (in a prescribed format) from an insurer’s LRS upon initial registration of the insurer or upon a subsequent change of LRS. The letter of undertaking requires the LRS to confirm the following:

- acceptance of the appointment;
- that the LRS will perform such function in accordance with the Insurance Act and related regulations;
- that the scale and complexity of the business written by the insurer and the estimation of the liabilities are within the LRS’ professional expertise and proficiency;
- that there is no actual, potential or perceived conflicts that may prevent the LRS objectively fulfilling the role;
- that the LRS is a member of good standing with his/her institute or association;
- that the LRS meets the educational and examination requirements to be considered qualified to sign statutory loss reserve opinions; and
- that the LRS has experience in loss reserve evaluation for the type of business written by the insurer for whom they are being appointed.

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A copy of the LRS' curriculum vitae must be submitted with the letter of undertaking. If the LRS is not already known to the BMA, the BMA may also require a letter from the relevant institute or association confirming that the person's membership is current and in good standing.

The Guidance Notes also provide that a person will not be approved as an insurer's LRS if the person is also the said insurer's chief executive officer, chief operating officer, a director of the insurer, a person with underwriting authority or in any other role within the insurer where in the view of the BMA there is a conflict of interests that would affect the LRS' ability to objectively fulfill his/her role.

A similar approval process is undertaken and a letter of undertaking is required for an Actuary appointed by a company registered as a long-term insurer under the Insurance Act.

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