



Bermuda Creates Legislative Framework to Promote Insurtech Innovation

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Bermuda has recently introduced a new legislative framework for establishing insurers and insurance intermediaries that carry on business in an “innovative or experimental manner”. The *Insurance Amendment Act, 2018* (the “Amendment Act”), which came into effect on 23 July 2018, amends the *Insurance Act, 1978* (the “Act”). It creates an insurtech ‘regulatory sandbox’ for the purpose of facilitating and promoting experimental and innovative applications of technology in the insurance sector in a controlled environment. The sandbox is complemented by the Innovation Hub that the Bermuda Monetary Authority (the “BMA”) has established to promote insurtech innovation.

New classes of insurers

The Amendment Act creates two new classifications for Innovative Insurers: Class IGB (an insurer carrying on general business in an innovative or experimental manner) and Class ILT (an insurer carrying on long-term business in an innovative or experimental manner). There are also new classifications for Innovative Intermediaries: insurance agents (“IAs”), insurance brokers (“IBs”) and insurance managers (“IMs”) carrying on their respective business in an innovative or experimental manner.

The ‘sandbox’: a controlled-risk space

Innovative Insurers and Innovative Intermediaries may be formed as new start-ups or affiliates of existing insurers (or intermediaries) and operate in a closely controlled environment in the sandbox. For a limited period (typically six months to one year, which may be extended), these companies will operate using and experimenting with their proposed new technologies under the scrutiny of the BMA. This will allow Innovative Insurers and Innovative Intermediaries to provide their insurance products and services to clients in a controlled-risk space, with the BMA determining what legal and regulatory aspects of existing legislation should apply to them in order to ensure policyholder protection. The intention is that within or following the initial period of controlled development, an entity could graduate from the sandbox and become a fully licenced insurer or intermediary. At that stage, the entity would apply to be registered under the Act as a Class 1, 2, 3, 3A, 3B or 4 insurer (if general business), Class A, B, C, D or E insurer (if long-term business), Special Purpose Insurer, insurance agent, insurance broker, or insurance manager, as appropriate.

The application process

The initial application process for registering as an Innovative Insurer or Innovative Intermediary is similar to the existing application process for registering as an insurer or intermediary under the Act and many of the same standards and requirements apply. However, in considering whether to register a body as an Innovative Insurer, the BMA will also have regard to (a) whether the Innovative Insurer has satisfactorily demonstrated to the BMA that it is able to use new or different technological or innovative measures to carry out the proposed innovative insurance business or to provide products or services, and (b) the sophistication of the policyholders, proposed policyholders and service providers of the Innovative Insurer.

Where the BMA approves an application, it will advise the Innovative Insurer or Innovative Intermediary of the legislative and regulatory requirements that will apply while the company is in the sandbox. The BMA has indicated that it may consider modifying certain requirements, including capital requirements, the appointment of a BMA-approved auditor, the appointment of a loss reserve specialist (in the case of a Class IGB insurer) or actuary (in the case of a Class ILT insurer), prudential filings, fees, and minimum paid-up share capital. Otherwise, the legal and regulatory requirements for Class IGB insurers and Class ILT insurers are comparable to those for Class 1 insurers and Class A insurers, respectively. Likewise, the legal and regulatory requirements for IAs, IBs and IMs are similar to those for insurance agents, insurance brokers and insurance managers, respectively. While in the sandbox, the company will be assigned a principal contact at the BMA to assist the company through the process.

The Amendment Act also provides for the BMA to make prudential standard rules to be complied with by Innovative Insurers or Innovative Intermediaries, where required. To date, the BMA has yet to issue such rules.

Innovation Hub

The “Innovation Hub” was designed by the BMA to attract companies which are part of the broader insurance digital transformation process occurring globally. The BMA has developed an internal working group which is designed to meet and greet any companies within the insurtech space – branded as the BMA’s insurance innovative working group or “BMA IWG”. This group is meant to encourage the exchange of ideas and information with insurtech companies, and it also has a mandate to allow companies to enter the insurtech regulatory sandbox when they are ready to do so.

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