BMA
BERMUDA MONETARY AUTHORITY

21 January 2026

CONSULTATION PAPER

New Insurer Class – Parametric Special Purpose Insurer

Comments to be received by 27 February 2026

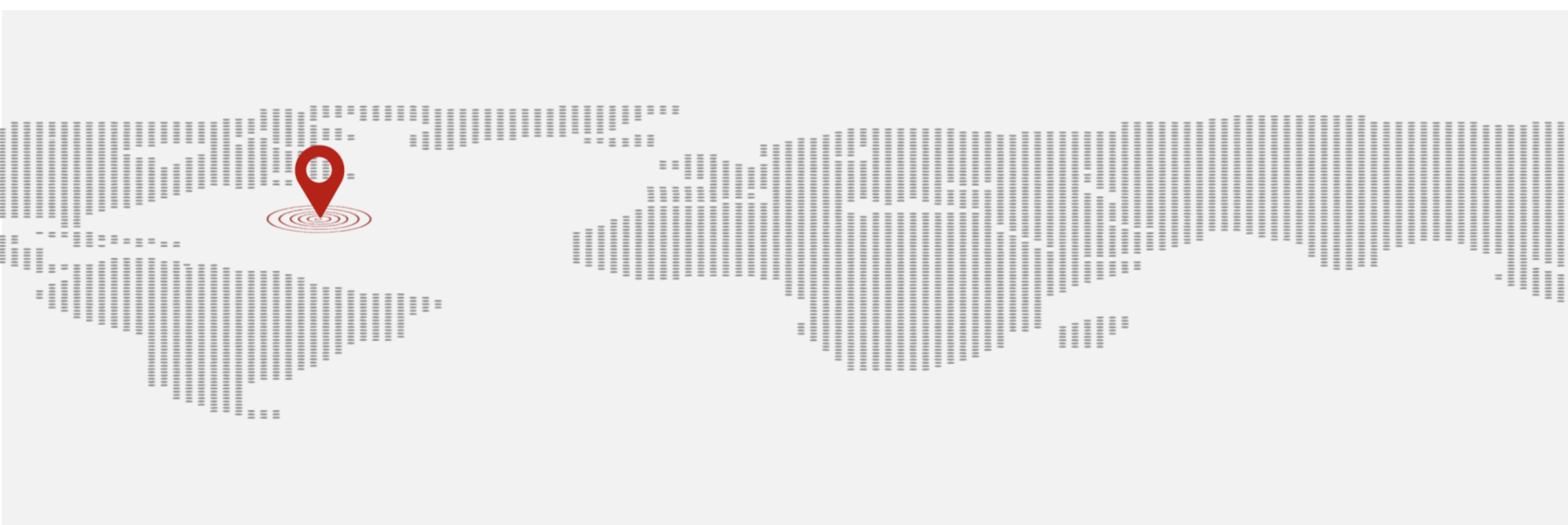

Table of Contents

Executive Summary

1. This Consultation Paper (CP) sets out the Bermuda Monetary Authority's (Authority or BMA) proposal to amend the Insurance Act 1978, to include a new Special Purpose Insurer (SPI) class. The new class will be known as the Parametric Special Purpose Insurance (PSPI) class. This new class will offer a dedicated framework tailored for Bermuda Alternative Capital (Re)insurers that plan to adopt parametric business models. Establishment of the new class will not require existing registrants that offer parametric covers to reclassify; instead, this new class will serve as an additional pathway for prospective registrants interested in entering the Bermuda market for parametric business.

2. Bermuda has been at the forefront of innovative solutions in the Insurance-Linked Securities (ILS) market. The Bermuda SPI regime has proven to be a significant catalyst for global alternative (re)insurance business. The BMA is leveraging its established SPI framework to further the jurisdiction's efforts to address the growing protection gap linked to climate-related and emerging risks that are not adequately covered.

3. The nature, scale and frequency of Natural Catastrophe (Nat Cat) risks are evolving globally because of numerous factors, including those related to climate change. The protection gap for non-insured losses is widely reported to be continuously growing, and the financial impact on policyholders is intensifying. This is further compounded by emerging non-catastrophe risks, such as cyber risks. The Authority has noted the increased use of parametric covers in the (re)insurance market and views the parametric market as a supplemental product for the indemnity market. It is clear that parametric coverage can help safeguard policyholders in an intensifying risk landscape.

4. Parametric covers structured in a prudent and pragmatic manner can offer protection that can supplement the needs of policyholders where traditional indemnity covers do not adequately address their needs. In addition, parametric coverages offer features that enhance resilience after a significant loss event. For example, parametric coverages have an accelerated payout process, are customisable and include coverage of non-physical damages.

5. The BMA invites member of the insurance industry and other market stakeholders to express their views on the proposals set out in this CP. Comments should be emailed to the Authority at SPInsurer@bma.bm**.**

Introduction to Parametric Special Purpose Insurer

6. A PSPI is a Special Purpose Insurer that writes fully collateralised (re)insurance business and transfers risk via a parametric cover.

7. Parametric insurance is (re)insurance that is contractually structured with predefined, measurable loss event(s) and specified payout amounts.

8. The BMA's SPI regulatory framework was established in 2009 with the enactment of legislation and the publication of an SPI Guidance Note. The guidance note was amended in 2020 in response to the evolution of the market. Bermuda's Insurance Linked Securities (ILS) sector accounts for more than 85% of the global insurance alternative capital capacity.

9. The proposed new PSPI licence class will supplement the existing SPI framework. The intention is for the new PSPI licence to allow parametric covers within a fully collateralised framework. The new PSPI framework will maintain the core pillars of the existing SPI framework with specific caveats associated with the parametric insurer market.

10. The new PSPI regime creates a fit-for-purpose framework for parametric business and a pragmatic regulatory environment for market participants to become licensed and operate in. The PSPI regime will be reserved for traditional parametric business only, whereas innovative (re)insurers that wish to conduct parametric business will be subject to registration under the BMA's existing Insurance Innovation framework.

Proposed Regulatory Framework for Parametric Special Purpose Insurer

11. As per the existing SPI framework, the framework for PSPI will distinguish between restricted and unrestricted business strategies. Further, SPIs are required to conduct reinsurance business only with regulated (re)insurance cedants that are non-affiliated parties and generally rated A- or higher by AM Best or similar rating agencies. The BMA proposes broadening this requirement to allow PSPIs to conduct insurance transactions with other sophisticated cedants. For the PSPI framework, the factors outlined in the SPI Guidance Note dated 1 July 2020 will be enhanced to include criteria for sophisticated participants (e.g., qualified regional and national corporates, entities that can demonstrate a mature risk function, experienced insurance buyers, etc.).

12. The PSPI licence class will require SPIs to be fully collateralised to an aggregate limit that is consistent with current SPI classes. PSPIs will need to establish an aggregate limit for each contract and ensure that collateral is in place equal to or greater than their full exposure limit. Assets held as collateral will be required as cash, cash equivalents and Letters of Credit (LOCs). Where these assets are invested, they will be required to be held in high-quality, low-risk assets, such as money market funds, government bonds, etc. The PSPI will maintain the solvency-remote nature of the SPI class and will therefore similarly require a paid-up capital requirement of $1.

13. Governance of the PSPI will be required to be commensurate with the nature, scale and complexity of the insurer. Board composition will need to be sufficient to provide governance and oversight in accordance with the Insurance Code of Conduct.

14. Third-party validation will be critical in establishing a sound parametric programme, thus all external parties (i.e., claims assessors, consultants and technology providers) must be deemed sophisticated by the BMA.

15. Similar to the SPI class, the PSPI class will be required to demonstrate contractual certainty in the governing documents for each transaction. It is proposed that the PSPI class will allow swap and derivative forms of executing parametric covers on a case-by-case basis, which the Authority has approved.

16. For restricted and unrestricted PSPIs, the registration and annual business fees will be aligned with current fees for restricted ($10,000) and unrestricted ($15,000) SPIs. It is also proposed that for the first year that the PSPI class is established, the Authority will waive fees for any structures licensed during this period.

Implementation Timeline

17. Following this consultation period, the BMA will seek to have the PSPI class enacted into law. The PSPI class is intended to be added to the Insurance Act 1978 in 2026, with a target effective date before the end of Q2-2026. Further to this initial consultation, there will be a subsequent consultation period focused on technical guidance for stakeholders who wish to operate within the new framework. The technical consultation will follow the date of effect for the amendments to the Insurance Act 1978 (i.e., an approximate timing end of Q2/early Q3-2026).

18. This initial consultation is intended to solicit feedback from market stakeholders on the impact of the implementation of the PSPI class. Among stakeholder considerations, the Authority is keen to hear feedback and views regarding the following questions:

    - Do you foresee any negative impact on the Bermuda ILS market as a result of implementing the PSPI class?
    - Considering the Special Purpose Insurer Guidance Note dated 1 July 2020, what are the concerns with the current SPI framework that would be prohibitive for parametric ILS business?
    - Are there any amendments that the Authority should consider in its definition of a PSPI that are not specified above in sections 6 and 7?
    - Do you have any other views that would be deemed material to the implementation of the PSPI as an additional class of insurer?

APPENDIX

Comparison of SPI and PSPI

Attribute	Restricted SPI	Unrestricted SPI	PSPI (restricted or unrestricted)
Risk profile			• Insurance or reinsurance

	• Reinsurance, single cedant • Catbonds, XOL and QS • Other non-complex deals	• Reinsurance, multiple cedants with various deals • Catbonds, XOL and QS • Other complex deals	• Parametric and/or index deals • Restricted or unrestricted structures • Swaps and derivatives
Licensing condition	• Fully collateralised • Restricted to named cedant and/or affiliates	• Fully collateralised • Cedants rated A- or better (all other cedants require BMA approval)	• Fully collateralised • Restricted or unrestricted cedants, as described in the prior columns • For direct business, additional conditions for cedant sophistication
Target policyholders	• Known named (re)insurer cedants	• Unknown, open but sophisticated A- better (re)insurers	• Known named (re)insurer cedants • Unknown, open but sophisticated A- better (re)insurers • Unknown, open sophisticated regional, national corporates, Governments, government-sponsored entities
Audit	• Waived	• Appetite to waive on a case-by-case basis, subject to conditions	• Appetite to waive on a case-by-case basis, subject to conditions
Quality of capital/collateral	• Paid in cash and cash equivalents • LOCs from recognised financial institutions		

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