BERMUDA MONETARY AUTHORITY

BMA Captive Report 2019

Contents

Summary

This report highlights market results from 2018 year-end statutory financial returns submitted through the Bermuda Monetary Authority's (Authority) Electronic Statutory Financial Return (eSFR) system as of 31 December 2019 by Bermuda general business captive insurers (i.e. Class 1, Class 2 and Class 3 insurers).

Data from four key areas is presented in this report:

- Business written by geographical region, lines of business and industry of parent company
- Industry utilisation of Bermuda captives, their premium shares and the industry profile of the market
- Balance sheet composition by asset, liabilities and investment allocation
- Profitability indicators

The Authority's review of 2018 data demonstrates the continued strength of the Bermuda captive market through its ability to pay claims and its profitability indicators. From the data, and the Authority's experience and conversations with industry, the market appears to be resilient. Continued growth is expected with both long-standing exposures and emerging risks being underwritten. Whilst the Bermuda captive market has not been exempt from mergers and run-offs, 2018 was an active year for registrations, expansions into new lines of business and greater retentions. Bermuda's captive market is mature, having long endured the ebbs and flows of market forces, while steadily maintaining Bermuda's position as the leading captive domicile.

The Authority continues to take a risk-based approach to the supervision of captives, while modernising and evolving with the market and risks. As supervisory oversight is enhanced, the Authority may implement additional requirements as necessary. For 2018 year-ends, enhancements to the eSFR included the introduction of the *Schedule of Cyber Risk Management* and the *Schedule of Compliance with Sanctions*. These Schedules aim at ensuring companies are actively monitoring and mitigating these risks.

The *Schedule of Compliance with Sanctions* focuses on important aspects of the Bermuda Sanctions Regime. It identifies whether a company is conducting screening, the frequency of screening and the details of any asset freezes in the prior 12 months.

Statistics on the market composition:

- 64% of the market has a Pure Captive[1] company structure
- 62% of the risk assumed by the market originates from North America
- 17% of insurers are in run-off
- 17% of insurers have segregated accounts

With the introduction of the eSFR system came the formal roll-out of a prescribed Schedule of Segregated Accounts, aimed at gathering key data on the use of segregated accounts structures within Bermuda's captive market.

Similar to prior years, the Authority noted 17% of the Class 1, 2 and 3 insurers utilise segregated accounts, setting aside segregated assets to cover 170% of segregated account liabilities.

COVID-19

At the end of 2019, the world was introduced to the novel coronavirus pandemic (COVID-19). This pandemic, by early 2020, had started spreading rapidly across the world. Countries were faced with extraordinary and unforeseen challenges, and executed strategies to decrease its spread. Bermuda's captive insurers implemented business continuity strategies for their operations, with most services being offered remotely. Most captive insurers are in the midst of reviewing portfolios to determine exposures to COVID-19, and holding discussions on the management and mitigation of such exposures.

In these unprecedented times, the Authority expects:

- The emergence of innovative responses to this new exposure as organisations consider how to mitigate risks
- Captives will continue to be used as a key risk management tool for such new and emerging risks, while companies assess risks and coverage availability in traditional markets
- Captives to be a part of the continued growth in the depth and range of structures being presented to the Authority for placement in both existing and new insurers

[1] Defined on page 9

Geography of Risk Assumption

The Bermuda captive market maintained its strength and presence in 2018, writing over $25 billion in gross premiums. As in prior years, the majority of risk assumed by Bermuda captives originated in North America and Bermuda (62%), followed by Europe (24%). This was to be expected as 75% of captives have a parent in these jurisdictions.

Table 1 – Geography of Risk Assumption (%)

Regions	**2018**	**2017**	**2016**
North America and Bermuda[2]	**62%**	**67%**	**62%**
Europe	**24%**	**21%**	**25%**
Japan	**5%**	**4%**	**5%**
Central and South America, Caribbean	**3%**	**3%**	**2%**
Rest of Asia	**3%**	**3%**	**2%**
Africa and Middle East	**2%**	**2%**	**2%**
Australia and New Zealand	**1%**	**1%**	**1%**
Total	**100%**	**100%**	**100%**

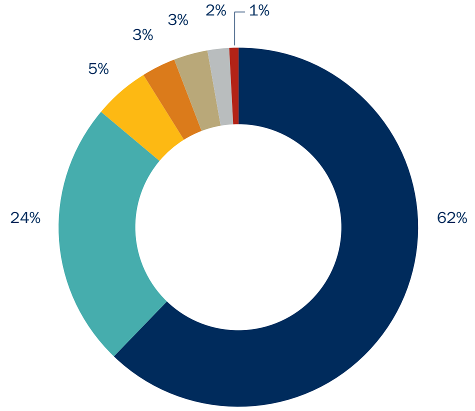


Chart 1 – Premiums by Location

- North America and Bermuda
- Europe
- Japan
- Central and South America, Caribbean
- Rest of Asia
- Africa and Middle East
- Australia and New Zealand

Totals might not add due to rounding.

[2] North America includes US and Canada.

Industry Utilisation | Demographics

Bermuda is home to a broad range of industries, which utilise captives as a key risk management tool.

The demographics of Bermuda captives' parent companies did not significantly change from the prior year. Financial institutions (15%) continued to lead in this area, followed by automotive, manufacturing and retail (12%), and shipping, transport and storage (11%). Parent captives in the healthcare industry remained steady at 10%, however, due to increased interest, 18% of 2018 formations were attributed to this sector.

Table 2 – Industry of Parent Company (%)

Industry	2018	2017	2016
Financial Institutions	15%	16%	18%
Automotive, Manufacturing and Retail	12%	11%	11%
Shipping, Transport and Storage	11%	12%	14%
Healthcare	10%	10%	8%
Energy, Power and Utilities	9%	9%	9%
Professional Services	9%	9%	8%
Administrative and Support Services	6%	6%	6%
Wholesale and Retail	6%	4%	4%
Construction	5%	6%	7%
Agriculture, Mining, Forestry and Fishing	4%	4%	4%
Chemical and Pharmaceutical	4%	4%	4%
Technology and Telecoms	3%	3%	3%
Charities and Non-profit Organisations	2%	1%	<1%
Education	1%	1%	<1%
Hospitality	1%	1%	1%
Media and Gaming	1%	1%	1%
Science and Research	1%	1%	<1%
Government or Public Sector	<1%	<1%	<1%
Leisure	<1%	<1%	<1%
Total	100%	100%	100%

Totals might not add due to rounding.

A total of 19 new captives formed in 2018. The leading industries of the parents were: shipping, transport and storage, healthcare and construction, all with 18% share of the new formations. New formations classified as Pure Captives, writing only the risks of its parent and/or affiliates, represented 85%.

By comparison, 17 new captives formed in 2017. Leading industries at the time were automotive, manufacturing and retail (50%), and financial institutions (25%).

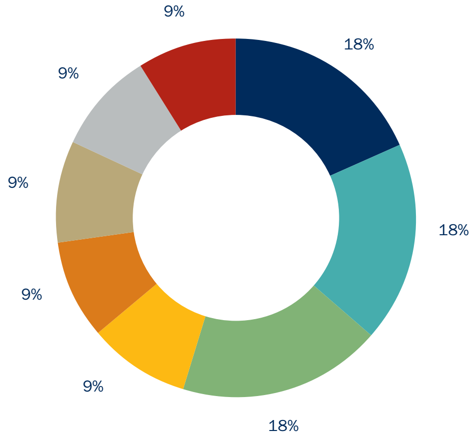


Chart 2 – New Formations by Industry of Parent Company

- Shipping, Transport and Storage
- Healthcare
- Construction
- Automotive, Manufacturing and Retail
- Chemical and Pharmaceutical
- Technology and Telecoms
- Science and Research
- Charities and Non-profit Organisations

Industry Utilisation | Premium Share

Premium share of the Bermuda captive market continues to be dominated by financial institutions (33%), followed by shipping, transport and storage (11%), and administrative and support services (10%). Administrative and support services saw an increase in market share of the overall premiums written, with a notable increase of 86% in premiums written compared to 2017.

Table 3 – Total Premiums by Industry (% share)

Industry	2018	2017	2016
Financial Institutions	33%	46%	54%
Shipping, Transport and Storage	11%	12%	11%
Administrative and Support Services	10%	4%	5%
Energy, Power and Utilities	9%	7%	5%
Professional Services	8%	7%	2%
Automotive, Manufacturing and Retail	6%	5%	4%
Technology and Telecoms	6%	5%	6%
Wholesale and Retail	5%	4%	4%
Healthcare	3%	3%	2%
Construction	2%	2%	2%
Agriculture, Mining, Forestry and Fishing	2%	1%	2%
Science and Research	2%	1%	1%
Chemical and Pharmaceutical	1%	1%	1%
Media and Gaming	<1%	<1%	<1%
Hospitality	<1%	<1%	<1%
Charities and Non-profit Organisations	<1%	<1%	<1%
Education	<1%	<1%	<1%
Leisure	<1%	<1%	<1%
Government or Public Sector	<1%	<1%	<1%
Total	**100%**	**100%**	**100%**

Totals might not add due to rounding.

Captive Structure

Pure captives, writing only risks of their parent and/or affiliates, comprised 64% of the Bermuda captive market. Overall, captive structures were relatively unchanged compared to the prior year, with a split of: 66% related business, 9% connected business and 25% unrelated business written.

Table 4 – Types of Company Structures

Type	2018	2017	2016
Pure Captive	64%	65%	61%
Insurer/Reinsurer	19%	19%	21%
Rent-a-Captive	7%	7%	7%
Group Captive	6%	6%	6%
Association Captive	3%	3%	4%
Agency Captive	1%	1%	1%
Total	**100%**	**100%**	**100%**

Definitions of company structure:

- **Pure Captive:** A company writing only the risks of its parent and/or affiliates.
- **Rent-a-Captive:** A company where the policyholder is insured by the captive without owning or, at least, without voting control of the captive. The captive facility "rents" its capital, surplus and licence to the policyholders, and usually provides administrative services and reinsurance, and/or is an admitted fronting company. Usually, a Rent-a-Captive will be structured as a segregated cell or separate account company, which provides legal segregation for each insurance programme from the liabilities of every other programme and those of the Rent-a-Captive itself.
- **Group Captive:** A company established by a group of companies with similar businesses or exposures writing only the risks of its owners and/or affiliates.
- **Association Captive:** A company insuring risks of member organisations of an association; it may also insure risks of affiliated companies of member organisations and risks of the association itself.
- **Agency Captive:** A company organised by brokers or agencies retaining partial or predominant ownership of the captive and offering it as a facility for coverage to their clients.
- **Insurer/Reinsurer:** A company carrying on insurance business that does not fit into any of the above categories.

Lines of Business | Short-Tail Lines

The provision of short-tail coverages represented 61% of all business written by Bermuda captives in 2018, compared to 53% in 2017 and 55% in 2016. The main lines in 2018 included:

- Property and casualty catastrophe (49%)
- Warranty and residual value (18%)
- Marine – protection and indemnity (P&I), cargo, hull and liability, and war (12%)
- Property damage and business interruption (11%)

Although not significant for the overall market, the greatest year-on-year increase was seen in the aviation line of business, with a two-fold increase compared to the prior year, and environmental risk, with a 44% increase in premium written over prior year.

Table 5 – Short-Tail Lines of Business

Line of Business	2018	2017	2016
Property and Casualty Catastrophe	49%	43%	38%
Warranty and Residual Value	18%	21%	21%
Marine (P&I, Cargo, Hull and Liability, War)	12%	13%	12%
Property Damage and Business Interruption	11%	15%	16%
Energy (Onshore, Offshore)	6%	6%	7%
Aviation (Hull, Liability, War)	2%	1%	3%
Agriculture	1%	<1%	<1%
Cyber Risk	<1%	<1%	<1%
Construction	<1%	<1%	<1%
Terrorism	<1%	<1%	<1%
Environmental Risk	<1%	1%	1%
Mortgage	<1%	<1%	<1%
Total Premium	100%	100%	100%

Totals might not add due to rounding.

Lines of Business | Long-Tail Lines

In continuing the trend, cyber risk – though minimal in the premium share of property lines – saw a more than 46% increase in premium written compared to the prior year. This has been the trend since 2016 when the Authority began collecting data, coinciding with the first year cyber exposure was underwritten as a stand-alone line. The Authority expects this to persist as captives continue to be used as a risk management solution for new and emerging risks such as cyber and cryptocurrencies.

In 2018, 39% of all business was in long-tail lines, compared to approximately 47% in 2017 and 45% in 2016. The primary long-tail lines for 2018 were:

- Workers compensation and employers' liability (24%)
- General liability – public, products, umbrella and product recall (22%)
- Professional liability – professional indemnity, directors and officers (D&O), bankers blanket, and errors and omissions (E&O) (19%)
- Motor – automobile physical damage (APD) and liability (18%)

As discussed earlier, the Authority has seen a notable increase in companies using healthcare captives. Though not a leading long-tail line, there was a 51% increase in medical malpractice written over the prior year.

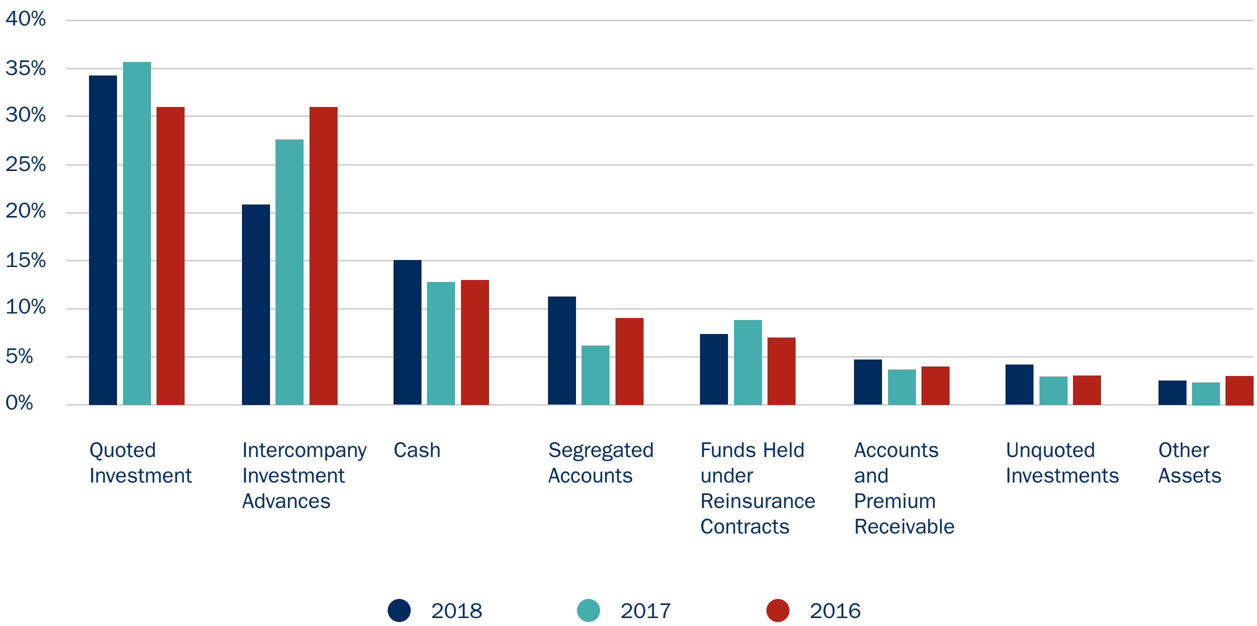
Table 6 – Long-Tail Lines of Business

Line of Business	2018	2017	2016
Workers Compensation/Employers Liability	24%	24%	29%
General Liability (Public, Products, Umbrella, Product Recall)	22%	26%	21%
Professional Liability (Professional Indemnity, D&O, Bankers Blanket, E&O)	19%	15%	7%
Motor (APD and Liability)	18%	20%	24%
Accident and Health, Travel, Personal Accident	11%	8%	9%
Credit/Surety	2%	4%	5%
Medical Malpractice	2%	1%	<1%
Crime and Fidelity	1%	1%	1%
Political Risks	<1%	<1%	4%
Incidental Long-term Business (not to be included if a composite licence)	<1%	<1%	<1%
Finite Reinsurance	<1%	<1%	<1%
Total Premium	**100%**	**100%**	**100%**

Bermuda captives' assets are predominately held as quoted investments, intercompany investment advances and cash.

The full asset composition for the market is shown in Chart 3 below.

Chart 3 – Asset Composition (year-on-year)



Consistent with prior years, Bermuda captives' investments are largely in investment-grade securities, as highlighted below in Table 7, noting 76% of the captive market's quoted investments were held in bonds.

Table 7 – Quoted Investment Composition (%)

Investment Type	2018	2017	2016
Bonds	76%	73%	81%
Equities	14%	17%	12%
Other	10%	11%	7%
Total	100%	100%	100%

Almost 80% of captives' quoted and unquoted bonds, and debentures are rated A.M. Best (or equivalent) A or better, as shown below in Table 8.

Table 8 – Investments by Rating

	2018	2017	2016
Rating AAA	29%	32%	27%
Rating AA	35%	34%	45%
Rating A	15%	16%	15%
Rating BBB	12%	9%	6%
Rating BB	4%	4%	1%
Rating B	1%	1%	2%
Rating Below CCC	4%	4%	4%
Total	100%	100%	100%

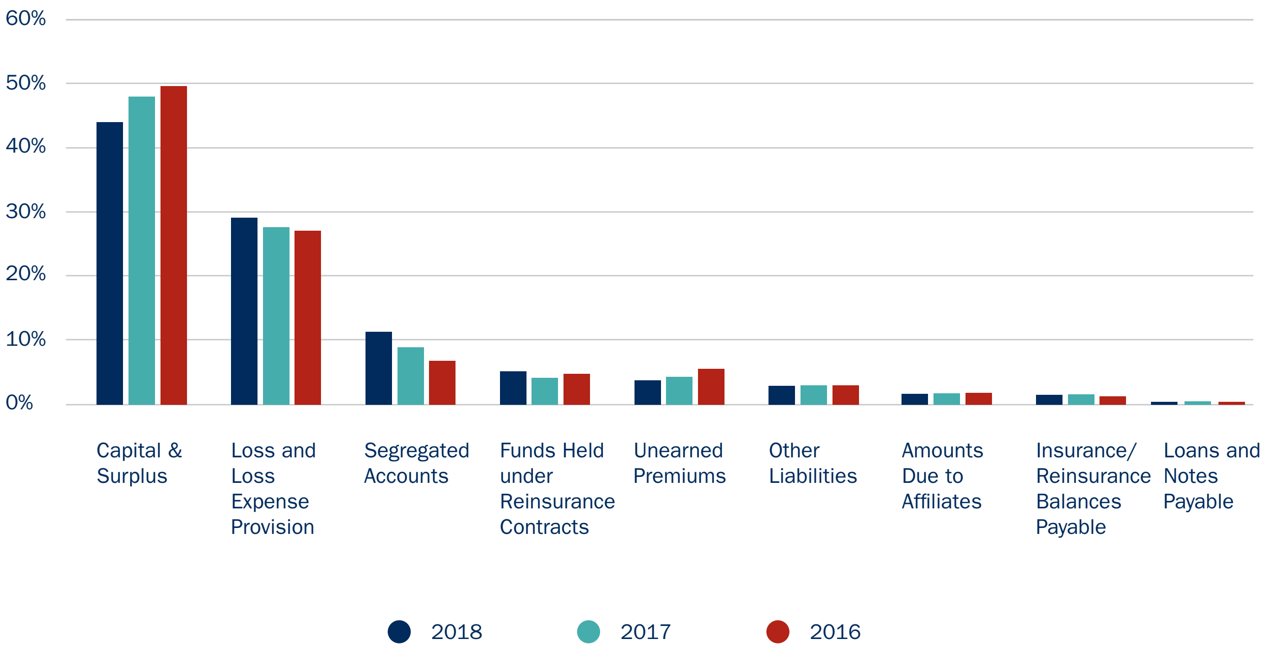
Totals might not add due to rounding.

Liabilities and Capital and Surplus

The Bermuda market is well-positioned with strong resources to pay in the event of claims. The Authority noted unearned premiums totalling $54 billion (33% of all liabilities), minimal balances due (4% of liabilities), and capital and surplus of over $72 billion.

The full liability composition for the market is shown in Chart 4 below.

Chart 4 – Liability Composition (year-on-year)



Alternative Capital

Approximately 3% of Class 1, 2 and 3 insurers reported utilising alternative capital structures[3] to manage loss exposures in business operations. Over half of these structures covered risk in the US. Captives utilised alternative capital structures primarily to cover exposure related to property catastrophe, as seen in the table below.[4]

Alternative Capital Structures - Line of Business	2018
Property Catastrophe	79%
Property Non-proportional	18%
Property	3%
Credit/Surety Non-proportional	<1%
Energy Offshore/Marine	<1%
Energy Offshore/Marine Non-proportional	<1%
International Casualty Non-motor Non-proportional	<1%
Other	<1%
Total	**100%**

Totals might not add due to rounding.

Location	2018
US	56%
Worldwide	31%
Other	5%
Asia	3%
Europe	3%
UK	1%

Totals might not add due to rounding.

[3] Alternative capital structures are defined as insurers conducting business financed by a mechanism other than shareholders' capital of the (re)insurance company. This may take various forms such as Cat bonds, industry loss warranties, sidecars, collateralized reinsurers, longevity and mortality bond/swaps, hybrid securities such as preference shares, swaps and contingent capital such as letters of credit, among others.

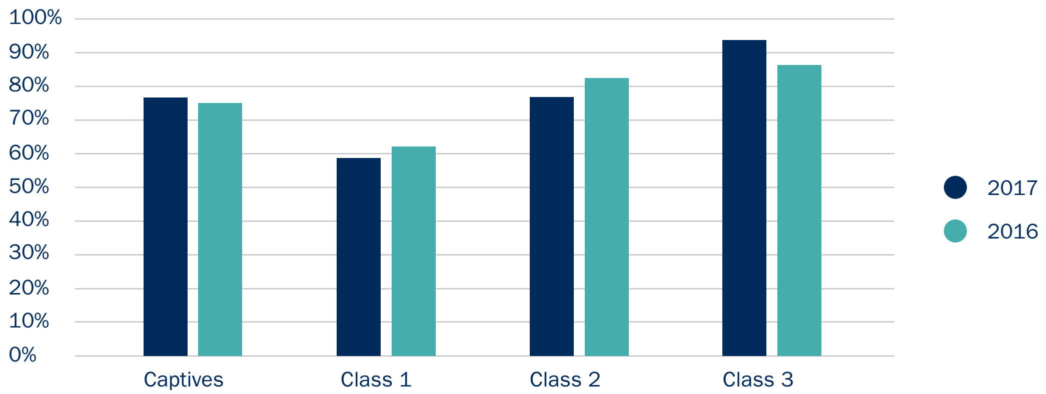
[4] Please see the *2018 Alternative Capital Report* available at www.bma.bm for additional details on the use of alternative capital in the Bermuda market.

Profitability Ratios

The review of profitability ratios reveals the Bermuda captive market was profitable in 2018, collectively and at each class level, as shown in Chart 5 below.

The median combined ratio for Bermuda captives has steadily increased for the past three years (2018: 83%; 2017: 77%; 2016: 75%), driven primarily by a decline in net premium earned. The median loss ratio for Bermuda captives increased over the same period (2018: 65%; 2017: 54%; 2016: 49%).

Chart 5 – Combined Ratios



Annex 1

Balance Sheet Positions (2018)

	All Categories	Class 1	Class 2	Class 3
Quoted Investments	34%	12%	48%	30%
Bonds	76%	78%	62%	88%
Equity	14%	17%	25%	4%
Other	10%	5%	13%	8%
Intercompany Investment/Advances	21%	67%	26%	7%
Cash	1%5	16%	10%	18%
Accounts Premium Receivable	5%	3%	4%	5%
Unquoted Investments	4%	2%	7%	3%
Other Assets	21%	0%	5%	37%
Total Assets	**100%**	**100%**	**100%**	**100%**
Capital and Surplus	44%	79%	58%	27%
Loss and Loss Expense Provision	29%	15%	34%	29%
Unearned Premiums	4%	3%	3%	4%
Loans and Notes Payable	0%	0%	0%	1%
Insurance/Reinsurance Balances Payable	1%	2%	2%	1%
Amounts Due to Affiliates	2%	0%	0%	3%
Other Liabilities	20%	1%	3%	35%
Total	**100%**	**100%**	**100%**	**100%**

Totals might not add due to rounding.

Annex 2

Gross Written Premium by Short-Tail Business Lines (2018)

	All Categories	Class 1	Class 2	Class 3
Property Catastrophe	49%	34%	5%	72%
Warranty, Residual Value	18%	0%	28%	15%
Marine (P&I, Cargo, Hull and Liability, War)	12%	10%	34%	2%
Property Damage and Business Interruption	11%	44%	14%	6%
Energy (Onshore, Offshore)	6%	6%	16%	1%
Aviation (Hull, Liability, War)	2%	3%	2%	2%
Agriculture	1%	1%	0%	1%

Lines of business accounting for less than 1% individually in the current year were removed. Totals might not add due to rounding.

Annex 3

Gross Written Premiums by Long-Tail Business Lines (2018)

	All Categories	Class 1	Class 2	Class 3
Workers Compensation/Employers Liability	24%	26%	36%	15%
General Liability (Public, Products, Umbrella, Product Recall)	22%	34%	11%	27%
Professional Liability (Professional Indemnity, D&O, Bankers Blanket, E&O)	19%	18%	34%	8%
Motor (APD, Liability)	18%	4%	4%	32%
Accident and Health, Travel, Personal Accident	11%	10%	9%	13%
Credit/Surety	2%	2%	3%	2%
Medical Malpractice	2%	1%	4%	1%
Crime and Fidelity	1%	5%	1%	0%

Lines of business accounting for less than 1% individually in the current year were removed. Totals might not add due to rounding.

If you would like to find out more about this report, please contact:

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