

BMA Captive Report **2020**





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Summary

This report highlights the market results from 2019 year-end statutory financial returns submitted through the Bermuda Monetary Authority's (Authority or BMA) Electronic Statutory Financial Return (E-SFR) system by 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 segmented into geographical regions, 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 assets, liabilities and investment allocation
- Profitability indicators

Bermuda's captive market is a mature market that has long endured a number of global crises while maintaining Bermuda's position as the leading captive domicile measured by both premiums written and capital to support the business underwritten. A review of 2019 data highlights the Bermuda captive market's continued resilience through its profitable underwriting, strong capital and ability to pay claims. The market is expected to continue to thrive, moving forward incorporating both traditional and emerging risks. With its proven history, the Bermuda captive market continues to see interest grow for current and new captive owners exploring how to maximise the benefits a captive can offer, resulting in an active year of registrations and expansion into new lines/greater retentions.

The Authority maintains its commitment to the growth and stability of Bermuda's captive market through a robust, risk-based approach in the supervision of captives, modernising and evolving with the market, ensuring proportionality and flexibility while maintaining integrity in the market.

With the introduction of the Insurance Sector Operational Cyber Risk Management Code of Conduct in December 2019, the Authority set out the requirements and standards necessary to comply with the Code, ensuring a cyber resilient, proactive and prepared market.

The Schedule of Compliance with Suspicious Activity Reports and Sanctions focuses on important aspects of the Bermuda sanctions regime to identify if the company is conducting screening, the frequency of screening and details of any asset freezes in the prior 12 months.

COVID-19

As the world grappled with the sudden onset of COVID-19, captives were uniquely impacted—both directly and indirectly. To understand the immediate impact on the captives, the Authority issued a COVID-19 Emerging Risks template, which requested information on the captives' assessment of exposure and governance



changes. Bermuda's captive market took steps early to evaluate the impact of COVID-19 appropriately. A review of the templates did not reveal a significant negative impact on the market. As time has progressed, the impact of the pandemic has continued to decrease because of the effective implementation of mitigation strategies across the market. On the advice of the Authority, the captive market appears to have taken a prudent approach to any reduction of capital through the period, given the uncertainty of the effects.

COVID-19 continues to pose challenges for registrants' ability to hold physical, in-person board meetings in Bermuda. In assessing compliance requirements to hold these meetings for the period ending 31 December 2021, the Authority advised in the 1 June 2021 Notice, that consideration is given to all circumstances, including registrants' inability to hold such meetings due to logistical difficulties or public health concerns resulting from COVID-19. The Authority reiterated the importance of maintaining frequent board meetings and expects registrants to continue to conduct their board meetings virtually by telephone, video conference or other means, when it is not practical to meet physically.

Cyber Risk

The Authority is heavily focused on and encourages innovation within the market as well as staying abreast of emerging risks such as cyber and ransomware risks. The Authority highlighted growth in underwriting and consideration of captives by organisations in their management of cyber risks.

Climate Change and Sustainability

The insurance sector is a key part of the global economy and is exposed to the physical, liability and transition risks arising from climate change. Climate change and sustainability continue to take centre stage, with organisations seeking to use their captives to manage risks brought about by climate change-related events. Bermuda provides a stable captive market that is well-placed to provide risk management tools for companies wanting to manage climate change-related and other emerging risks alongside traditional risks.

The Authority set up an internal task force focused on climate change and sustainability to determine how best to integrate sustainability into the Authority's regulatory framework. To address climate-related considerations, the Authority may modify supervisory processes and reporting requirements to the extent required in the future. Any changes in the captive space will be applied proportionally, with robust consultation with the market and specific to those that are most impacted by this risk.

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

¹ Defined on page 10

Geography of Risk Assumption

The Bermuda captive market maintained its strength and presence in 2019, with over \$25 billion in gross written premiums. As in prior years, the majority of risk assumed by Bermuda captives originated in North America and Bermuda (62%); followed by Europe (23%).

Table 1 – Geography of Risk Assumption (%)

Regions	2019	2018	2017
North America and Bermuda	62%	62%	67%
Europe	23%	24%	21%
Japan	5%	5%	4%
Central and South America, Caribbean	3%	3%	3%
Rest of Asia	3%	3%	3%
Africa and Middle East	3%	3%	2%
Australia and New Zealand	1%	2%	1%

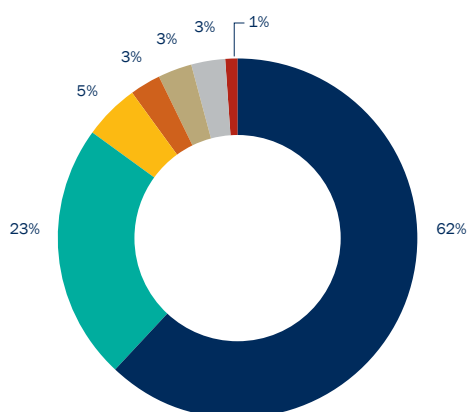


Chart 1 – Premiums by Location



Percentages may not total to 100% due to rounding.

Industry Utilisation | Demographics

Bermuda continues to be the jurisdiction of choice for a broad range of industries utilising captives as a key risk management tool within both large and small organisations. There were no significant changes to the demographics of the parent companies of Bermuda captives from the prior year.

Financial institutions continue to lead (14%), followed by automotive, manufacturing and retail (12%) and shipping, transport and storage (12%). Captives of parent companies in the healthcare industry remain steady at 10% of the market.

Table 2 – Industry of Parent Company (%)

Industry	2019	2018	2017
Financial institutions	14%	15%	16%
Automotive, manufacturing and retail	12%	12%	11%
Shipping, transport and storage	12%	11%	12%
Healthcare	10%	10%	10%
Energy, power and utilities	9%	9%	9%
Professional services	8%	9%	9%
Administrative and support services	6%	6%	6%
Wholesale and retail	6%	6%	4%
Construction	5%	5%	6%
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%	2%	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%

Percentages may not total to 100% due to rounding.



Industry of Parent for 2019 New Formations

In 2019, 14 new captives were formed, with the leading industries of the parent company being 30% from administrative and support services and 21% from financial institutions. Of the new formations, 50% classified as pure captives writing only the risks of its parent and/or affiliates, and 36% classified as group captives, with similar businesses or exposures writing only the risks of its owners and/or affiliates.

By comparison, 19 new captives were formed in 2018, with the leading industries of the parent company being shipping, transport and storage, healthcare and construction, all with an 18% share of the new formations. Of the new formations, 85% classified as pure captives, writing only the risks of its parent and/or affiliates.

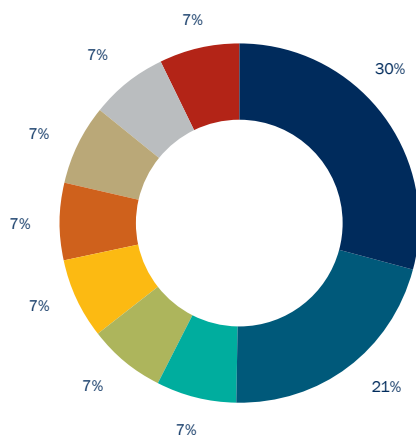


Chart 2 – New Formations by Industry of Parent Company

- Administrative and support services
- Financial institution
- Shipping, transport and storage
- Automotive, manufacturing and retail
- Professional services
- Construction
- Chemical and pharmaceutical
- Charities and non-profit organisations
- Education

Percentages may not total to 100% due to rounding.

Industry Utilisation | Premium Share

The gross written premium of the Bermuda captive market continues to be dominated by captives focused in the financial institution industry (29%), followed by shipping, transport and storage (13%) and administrative and support services (12%).

Professional services saw an increase of 24% over 2018 premiums in their market share of the overall premiums written. Also, shipping, transport and storage increased by 16% in their market share of the overall premiums written.

Table 3 – Total Premiums by Industry (% share)

Industry	2019	2018	2017
Financial institution	29%	33%	46%
Shipping, transport and storage	13%	11%	12%
Administrative and support services	12%	10%	4%
Professional services	11%	8%	7%
Energy, power and utilities	8%	9%	7%
Automotive, manufacturing and retail	5%	6%	5%
Technology and telecoms	5%	6%	5%
Wholesale and retail	5%	5%	4%
Healthcare	4%	3%	3%
Agriculture, mining, forestry and fishing	2%	2%	1%
Construction	2%	2%	2%
Science and research	2%	2%	1%
Chemical and pharmaceutical	1%	1%	1%
Hospitality	1%	<1%	<1%
Charities and non-profit organisations	<1%	<1%	<1%
Education	<1%	<1%	<1%
Leisure	<1%	<1%	<1%
Media and gaming	<1%	<1%	<1%
Government or public sector	<1%	<1%	<1%
Total	100%	100%	100%

Percentages may not total to 100% due to rounding.

Captive Structure

The Bermuda captive market consists largely of pure captive structures (64%). Overall, captive structures are relatively unchanged compared to the prior year, with a split of 67% related business, 23% unrelated business and 10% connected business written.

Table 4 – Types of Company Structures

Type	2019	2018	2017
Pure captive	64%	64%	65%
Insurer/reinsurer	18%	19%	19%
Rent-a-captive	7%	7%	7%
Group captive	6%	6%	6%
Association captive	3%	3%	3%
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 58% of all business written by Bermuda captives in 2019 compared to 61% in 2018 and 53% in 2017.

The main lines of business in 2019 included:

- Property and casualty catastrophe (50%)
- Warranty and residual value (19%)
- Marine – Protection and Indemnity (P&I), cargo, hull and liability, and war (13%)
- Property damage and business interruption (10%)

Table 5 – Short-Tail Lines of Business

Line of Business	2019	2018	2017
Property and casualty catastrophe	50%	49%	43%
Warranty and residual value	19%	18%	21%
Marine - P&I, cargo, hull and liability, war	13%	12%	13%
Property damage and business interruption	10%	11%	15%
Energy - onshore and offshore	4%	6%	6%
Aviation - hull, liability and war	1%	2%	1%
Agriculture	1%	1%	<1%
Cyber risk	<1%	<1%	<1%
Construction	<1%	<1%	<1%
Terrorism	<1%	<1%	<1%
Property retrocession	<1%	<1%	<1%
Environmental risk	<1%	<1%	1%
Mortgage	<1%	<1%	<1%
Total property premium	100%	100%	100%

Percentages may not total to 100% due to rounding.

Lines of Business | Long-Tail Lines

In continuing the trend, though minimal in the premium share of short-tail lines, cyber risk saw an **18% increase in premiums written** compared to the prior year. This has been the trend since 2016, when data collection began coinciding with the first year underwriting cyber exposure as a stand-alone line. The BMA expects to see this trend continue as captives continue to be used as a risk management solution for new and emerging risks.

Of all business in 2019, 42% were in longer-tail lines compared to approximately 39% in 2018 and 47% in 2017.

The primary long-tail lines of business for 2019 were:

- Workers' compensation and employers' liability (23%)
- General liability – public, products, umbrella and product recall (21%)
- Professional liability – professional indemnity, Directors and Officers (D&O), bankers blanket and Errors and Omissions (E&O) (18%)
- Motor –Automobile Physical Damage (APD) and liability (18%)

The Authority noted an increase in companies enhancing the use of captives in the healthcare sector. Though not a leading long-tail line, there was a two-fold increase in medical malpractice written over the prior year.

Table 6 – Long-Tail Lines of Business

Line of Business	2019	2018	2017
Workers compensation/employers liability	23%	24%	24%
General liability - public, products, umbrella, product recall	21%	22%	26%
Professional liability - professional indemnity, D&O, bankers blanket, E&O	18%	19%	15%
Motor - APD and liability	18%	18%	20%
Accident and health, travel, personal accident	11%	11%	8%
Medical malpractice	6%	2%	1%
Credit/surety	2%	2%	4%
Crime and fidelity	1%	1%	1%
Political risks	<1%	<1%	<1%
Incidental long-term business (not to be included if a composite licence)	<1%	<1%	<1%
Finite reinsurance	<1%	<1%	<1%
Total casualty premium	100%	100%	100%

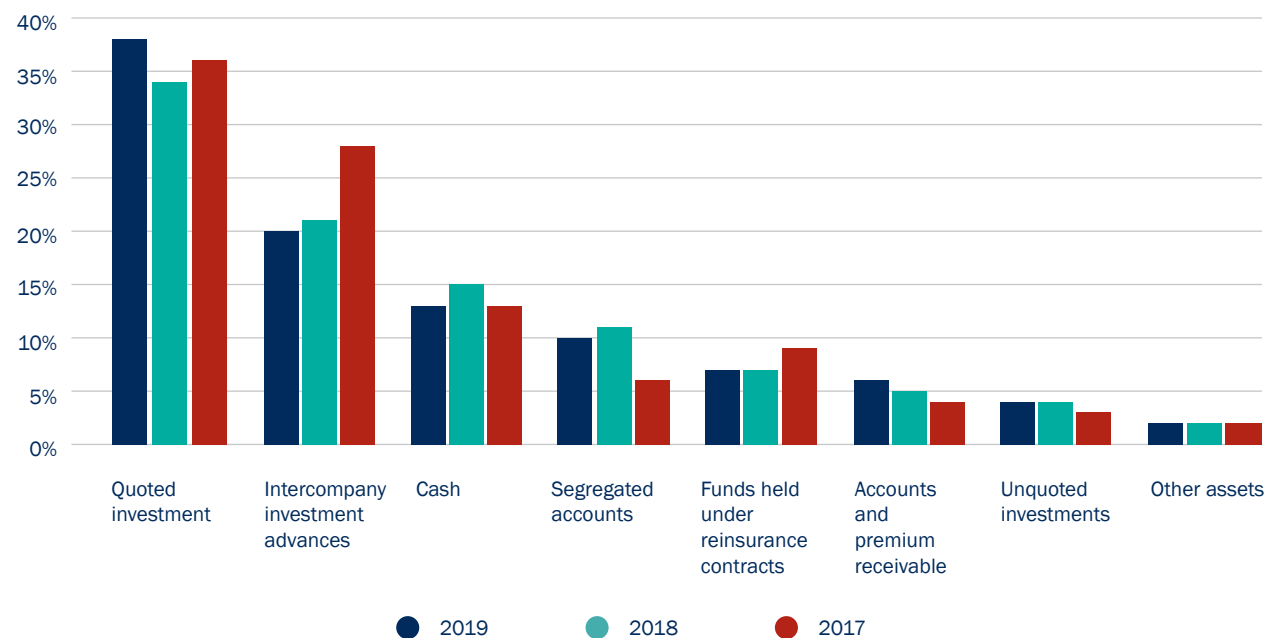
Percentages may not total to 100% due to rounding.

Assets | Composition

Bermuda captives' assets remain strong, predominately held as quoted investments, intercompany 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	2019	2018	2017
Bonds	77%	76%	73%
Equities	12%	14%	17%
Other	11%	10%	11%
Total	100%	100%	100%

Almost 82% of captives' quoted and unquoted bonds and debentures are rated A or better by A.M. Best (or equivalent), as shown below in Table 8

Table 8 – Investments by Rating

	2019	2018	2017
Rating AAA	30%	29%	32%
Rating AA	35%	35%	34%
Rating A	16%	15%	16%
Rating BBB	8%	12%	9%
Rating BB	2%	4%	4%
Rating B	2%	1%	1%
Rating below CCC	7%	4%	4%
Total	100%	100%	100%

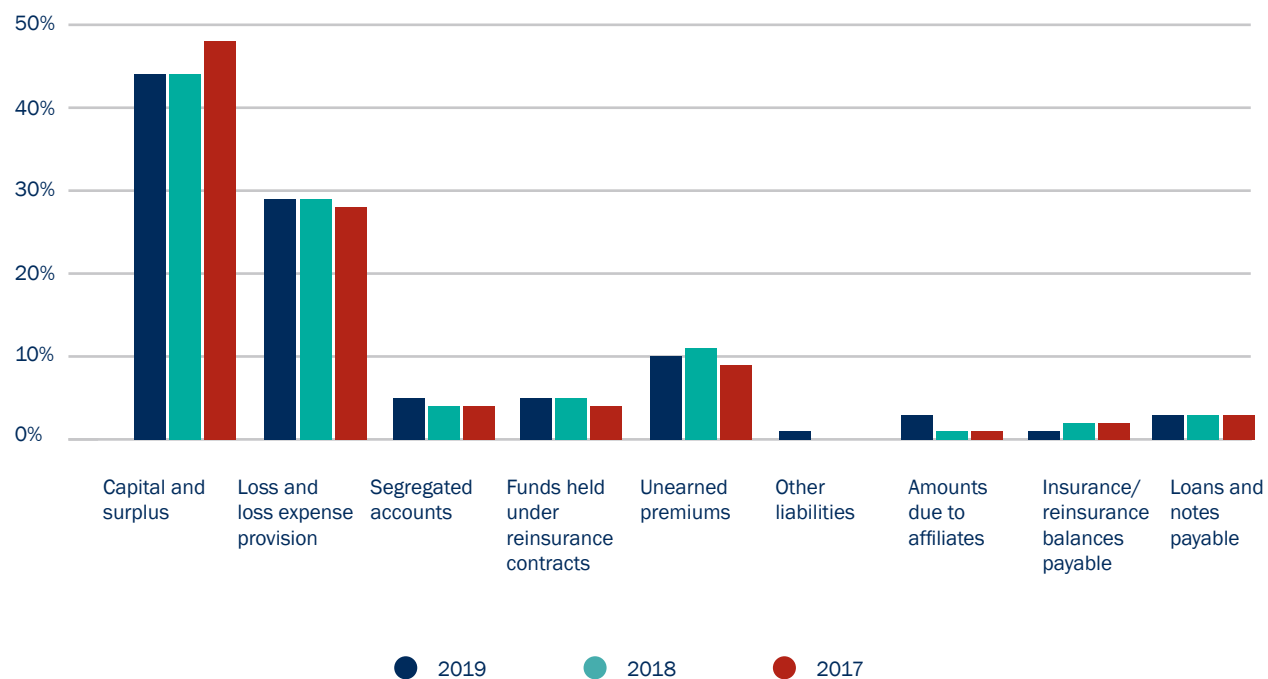
Percentages may not total to 100% due to rounding.

Liabilities and Capital and Surplus

The Bermuda market is well-positioned with overall strong balance sheets to pay in the event of claims. The Authority noted loss and loss expense provisions with unearned premiums totalling \$59 billion (34% of all liabilities) and capital and surplus of over \$77 billion, and minimal balances due (4% of liabilities).

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

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

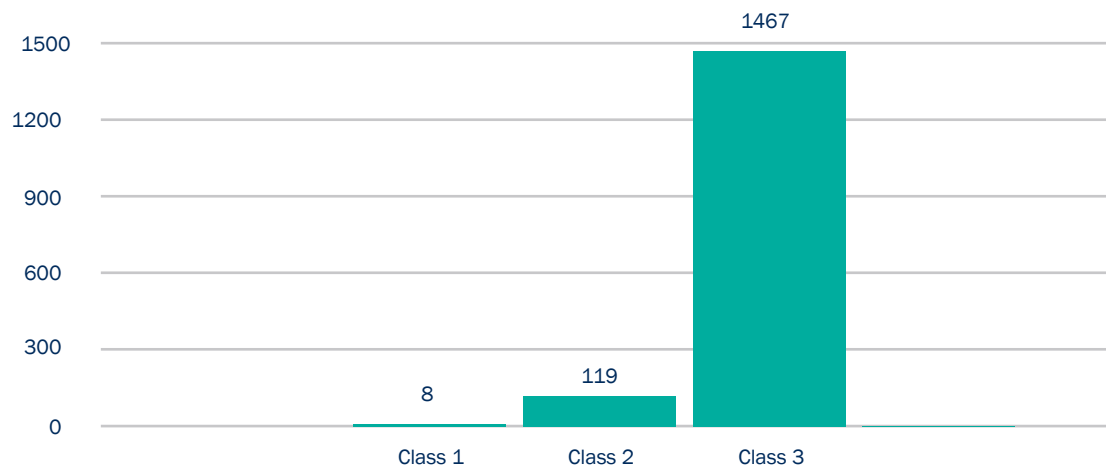


Segregated Accounts

As noted, 17% of the Bermuda captive market operate as Segregated Accounts Companies (SAC) or incorporated Segregated Accounts Companies (ISAC).

In 2019, total segregated accounts and incorporated segregated accounts in the BMA's registered SAC and ISAC were more than 1,500. Nevertheless, SAC spread across all captive classes are predominately registered in Class 3.

Chart 5 – Cells by Class





Segregated Account Company and Incorporated Segregated Account Company Premium Details

SAC and ISAC premium account for approximately 37% of the total captive gross written premium. The largest lines of business written within the SACs include property catastrophe at 30%, warranty residual value at 23% and property damage and business interruption at 17%. Of the total premium, approximately 85% is written as reinsurance, 6% is written directly and 9% written is a combination of both.

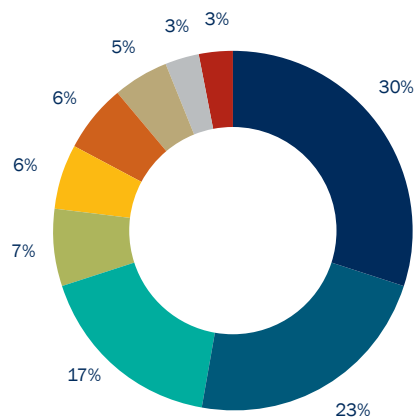


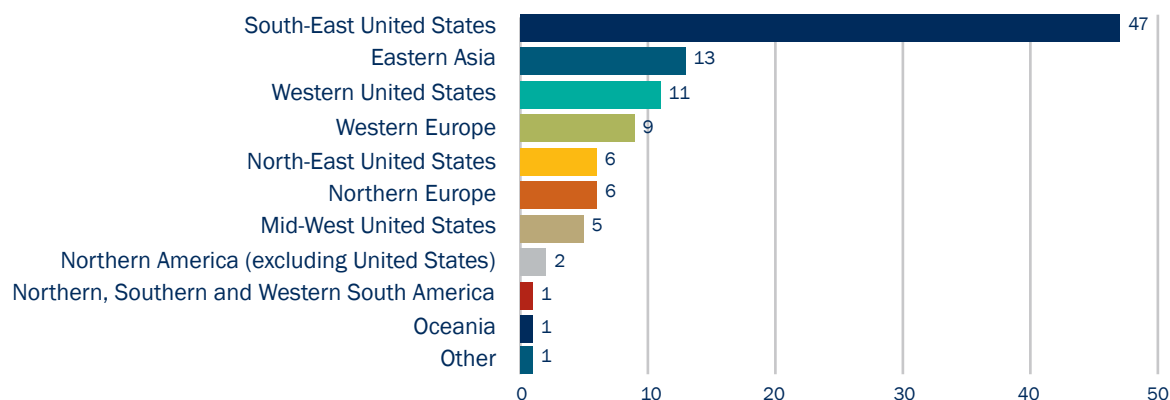
Chart 6 – SAC Premium by LOB

- Property catastrophe
- Warranty, residual value
- Property damage and business interruption
- Other
- Motor - APD and liability
- Longevity
- Medical malpractice
- Marine - P&I, cargo, hull and liability, war
- Accident and health, travel, personal accident

Of the 2019 SAC's assets recorded, 53% is held as cash, 28% quoted investments, 2% unquoted investments and 17% other assets.

Loss reserves account for approximately 34% of the total SAC liabilities held.

Of the SAC premium written, 47% is in the South-East United States, 13% in Eastern Asia and 11% in the Western United States.



Percentages may not total to 100% due to rounding.

Alternative Capital

In 2017, the BMA introduced the Alternative Capital Schedule to facilitate the collection of key data such as the structure of the insurer and summary of contract details. With this reporting requirement, we can ascertain that close to 3% of Class 1, 2, and 3 insurers are utilising alternative capital structures² to manage loss exposures in business operations. Just under half of these structures covered risk in the United States. Alternative capital structure utilised by captives was mainly (i.e., 91%) attributed to property and casualty catastrophe exposure coverage.³

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%

Percentages may not total to 100% due to rounding.

Location	2018
United States	56%
Worldwide	31%
Other	5%
Asia	3%
Europe	3%
United Kingdom	1%

Percentages may not total to 100% due to rounding.

² 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 catastrophe 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.

³ 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.

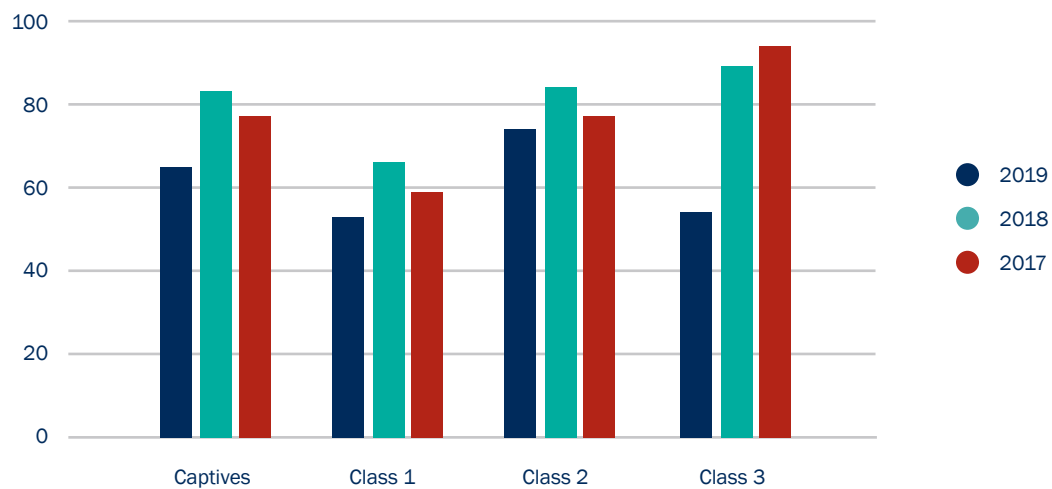


Profitability Ratios

A review of profitability ratios revealed that the Bermuda captive market was profitable in 2019, collectively and at each class level, as shown in Chart 8 below.

The median combined ratio for Bermuda captives has fluctuated over the past three years (2019 - 65%; 2018 - 83%; 2017 - 77%) driven by the fluctuation in the loss ratios. The median loss ratio for Bermuda captives has fluctuated over the same period (2019 - 53%; 2018 - 65%; 2017 - 54%).

Chart 5 – Combined Ratios



Annex 1

Balance sheet positions (2019)

	All Categories	Class 1	Class 2	Class 3
Quoted investments	38%	12%	51%	37%
Bonds	77%	77%	62%	89%
Equity	12%	20%	24%	3%
Other	11%	4%	14%	9%
Intercompany investment/advances	20%	71%	24%	8%
Cash	13%	13%	9%	14%
Accounts premium receivable	6%	3%	5%	7%
Unquoted investments	4%	1%	8%	3%
Other assets	19%	1%	4%	31%
Total Assets	100%	100%	100%	100%
Capital and surplus	44%	80%	57%	30%
Loss and loss expense provision	29%	15%	34%	29%
Unearned premiums	5%	3%	3%	6%
Loans and notes payable	1%	0%	0%	1%
Insurance/reinsurance balances payable	3%	1%	2%	4%
Amounts due to affiliates	1%	0%	1%	1%
Other liabilities	18%	1%	3%	29%
Total	100%	100%	100%	100%

Percentages may not total to 100% due to rounding.

Annex 2

Gross written premium by short-tail business lines (2019)

	All Categories	Class 1	Class 2	Class 3
Property catastrophe	50%	36%	5%	76%
Warranty, residual value	19%	0%	28%	16%
Marine (P&I, cargo, hull and liability, war)	13%	11%	36%	2%
Property damage and business interruption	10%	44%	15%	4%
Energy (onshore, offshore)	4%	3%	11%	1%
Aviation (hull, liability, war)	1%	4%	2%	0%
Agriculture	2%	1%	0%	1%

Lines of business accounting for less than 1% individually in the current year were removed. Percentages may not total to 100% due to rounding.

Annex 3

Gross written premiums by long-tail business lines (2019)

	All Categories	Class 1	Class 2	Class 3
Workers compensation/employers liability	23%	23%	34%	15%
General liability (public, products, umbrella, product recall)	21%	35%	9%	26%
Professional liability (professional indemnity, D&O, bankers blanket, E&O)	18%	21%	33%	7%
Motor (APD, liability)	18%	4%	7%	30%
Accident and health, travel, personal accident	11%	10%	11%	11%
Credit/surety	2%	2%	2%	2%
Medical malpractice	6%	1%	3%	8%
Crime and fidelity	1%	4%	1%	0%

Lines of business accounting for less than 1% individually in the current year were removed. Percentages may not total to 100% due to rounding.



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