

BMA Captive Report **2021**



A photograph of a sailboat's mast and sail on a blue sea under a clear blue sky, serving as a background for the top of the page.

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Summary

The Bermuda Monetary Authority (Authority or BMA) continues to view the Bermuda captive market as a vital part of the overall insurance market, contributing significantly to the quality and depth of the Bermuda insurance market.

The aggregation of the electronic reporting data submitted by industry allows the Authority to identify trends and conduct an in-depth review of the Bermuda captive market. This data analysis includes a granular, company-level review and a holistic overview of the market activity. As a result, this report highlights the market results from the 2020 year-end statutory financial returns submitted through the E-SFR system with a focus on the general business captive insurers (i.e., Class 1, Class 2 and Class 3 insurers).¹

This report presents data in four key approaches:

- Business is written by geographical region, lines of business and industry of the 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

Our review of the 2020 data highlights the continued relevance and stability of the Bermuda captive market navigating uncertainty through impactful events such as the global COVID-19 pandemic. In addition, the Bermuda captive market continues to demonstrate its viability and strength in metrics such as premiums written, capital available and its position as a global market leader.

The market has been resilient in the face of unprecedented events, market cycles and the evolution of risk, evidenced by the celebration of the 60th anniversary of the first captive to be established in Bermuda. Since the formation of the first captive, the regulation and supervision of captives has significantly evolved over the years to the risk-based model utilised today. As a result, we continue to see increased interest and healthy formation of new captives (having seen an average of 17 new captive registrations annually since 2018) along with enhanced use of established captives.

Participants in the Bermuda captive market recognise the opportunities to further address their organisation's exposures. As a result, they have increased the utilisation of solutions available in the captive market, driving innovation and evolving the use of the traditional captive business model.

The Authority has reinforced its commitment to the stability and growth of this important sector with an aim to ensure a pragmatic, bifurcated approach to the supervision of Bermuda captives, enhancing and building out

¹ Class 1: A single-parent captive insurance company underwriting only the risks of the owners of the insurance company and affiliates of the owners.

Class 2: Multi-owner captives, which are defined as insurance companies owned by unrelated entities, provided that the captive underwrites only the risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of the owners and affiliates.

Class 3: Applies to insurers and reinsurers not included in Class 1, 2, 3A, 3B or 4. This includes structured reinsurers writing third-party business; insurers writing direct policies with third-party individuals; single-parent, group, association, agency or joint venture captives where more than 20% of net premiums written is from risks that are unrelated to the business of the owners.



our risk-based regime to evolve with the market risks. The Authority continues to attentively apply a proportionate approach to its supervision of captive entities in an endeavour to ensure that the oversight and requirements are proportional to the size of risks posed by the insurers in the sector at every stage of assessment.

To increase the efficiency and speed to which captives can respond to their organisational needs, the Authority provided guidance in 2021 on its expectations regarding material new lines of business. If a captive is seeking to write related-party risks, under the guidance, the process has been streamlined for ease of entry in covering related risks while maintaining an efficient application process to allow for changes in risk profile and unrelated underwriting risks.

Climate and Cyber Risks

While there are a number of emerging risks, the two key risks of note are cyber (specifically ransomware) and climate. Bermuda captives and their parent companies continue to pay close attention to cyber risk as well as the significant increase in the cost cyber insurance in the commercial market. In this regard, the BMA has noted a significant growth increase in the number of organisations using their captives for cyber insurance as part of the overall management of the risk. This is once again an example of captives coming to the forefront of risk management discussions and being used more broadly to secure the necessary coverage and effectively manage the cost of organisational risks. With the introduction of the *Insurance Sector Operational Cyber Risk Management Code of Conduct*, which came into force on 1 January 2021, the BMA continues to work with registered companies to enhance their cyber resilience and readiness.

The Authority recently issued its Guidance Note: *Management of Climate Risk for Commercial Insurers* for consultation. This guidance note, influenced by qualitative and quantitative climate risk surveys data gathered over several years, is intended for commercial insurers; however, it also informs captives on governance and risk management elements related to climate risk.

The Authority has observed approaches to climate risk that propel underlying organisations and their captives forward. For instance, companies are implementing measures to embed climate risk into key decision-making processes and are formulating efforts to increase climate risk awareness throughout their organisations. These actions positively impact captives from a risk perspective and equally uncovers opportunities for both the parent companies and their captives.

Captives are beginning to play a vital role in closing the climate risk-related protection gap. An example of this is the excess capacity being deployed in innovative ways, such as supporting low-carbon technologies where historically, the insurance industry may have had less experience in the early stages of these technologies. The BMA expects further captive developments with the mitigation of climate risk in the future. Additionally, the Authority supports continued innovation in this space and is interested in emerging strategies for captives in the Bermuda market.

Statistics on the market composition:

- 65% of the market has a 'traditional captive'² company structure
- 71% of the risk assumed by the market originates from North America
- 16% of insurers are in run-off
- 17% of insurers have segregated accounts

² Defined on page 10

Geography of Risk Assumption

The Bermuda captive market maintained its strength and presence in 2020, writing over \$24 billion in gross premium written. As in prior years, most of the risk assumed by Bermuda captives originated in North America and Bermuda (71%), followed by Europe (12%).

Table 1 – Geography of Risk Assumption (%)

Regions	2020	2019	2018
North America and Bermuda	71%	62%	62%
Europe	12%	23%	24%
Japan	6%	5%	5%
The rest of Asia	4%	3%	3%
Africa and Middle East	3%	3%	3%
Central and South America, Caribbean	3%	3%	3%
Australia and New Zealand	1%	1%	2%

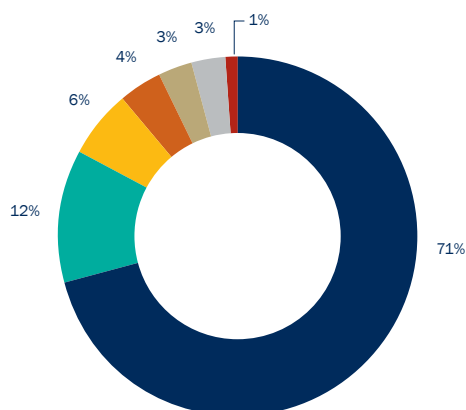


Chart 1 – Premiums by Location



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	2020	2019	2018
Financial institutions	14%	14%	15%
Automotive, manufacturing and retail	13%	12%	12%
Shipping, transport and storage	12%	12%	11%
Professional services	10%	8%	9%
Healthcare	9%	10%	10%
Energy, power and utilities	8%	9%	9%
Administrative and support services	6%	6%	6%
Wholesale and retail	6%	6%	6%
Construction	5%	5%	5%
Chemical and pharmaceutical	4%	4%	4%
Agriculture, mining, forestry and fishing	3%	4%	4%
Technology and telecoms	3%	3%	3%
Charities and non-profit organisations	2%	2%	2%
Hospitality	2%	1%	1%
Education	1%	1%	1%
Leisure	1%	1%	<1%
Media and gaming	1%	1%	1%
Science and research	<1%	1%	1%
Government or public sector	<1%	<1%	<1%
Total	100%	100%	100%

Percentages may not total to 100% due to rounding.



Industry of Parent for 2020 New Formations

In 2020, 12 new captives were formed, with the leading industries of the parent company being 17% from energy, power and utilities, shipping, transport and storage and wholesale and retail institutions. Of the new formations, 11 were classified as 'traditional captives', writing only the risks of the parent company and/or affiliates and one was classified as an 'agency captive', with similar businesses or exposures writing only the risks of the owners and/or affiliates.

By comparison, in 2019, 21 new captives were formed, 15 of which were identified as general business captives. The leading industries of the parent companies were administrative and support services (30%) and financial institutions (21%). Out of the new formations, 50% were classified as traditional captives, writing only the risks of the parent company and/or affiliates and 36% as group captives, with similar businesses or exposures writing only the risks of the owners and/or affiliates.

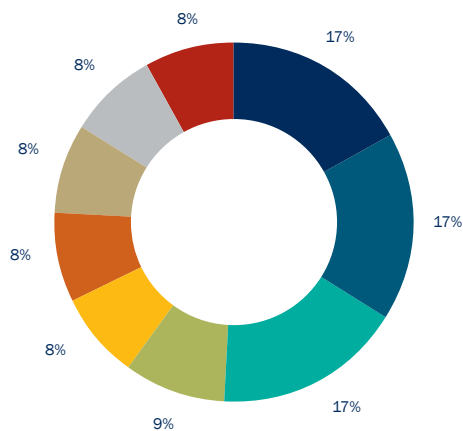


Chart 2 – New Formations by Industry of Parent Company

- Energy, power and utilities
- Shipping, transport and storage
- Wholesale and retail
- Administrative and support services
- Automotive, manufacturing and retail
- Construction
- Financial institution
- Healthcare
- Hospitality

Percentages may not total to 100% due to rounding.

Industry Utilisation | Premium Share

Premium share of the Bermuda captive market continues to be dominated by captives focused on energy, power and utilities (14%) and financial institutions industry (14%), followed by administrative and support services (13%) and shipping, transport and storage (13%).

Energy, power and utilities saw an increase in their market share of the overall premium written with an increase of 6% over 2019 premiums, while financial institutions saw a decrease of 15% in their market share of the overall premium written. The decrease relates to premiums written by registrants that graduated to our commercial regime.

Table 3 – Total Premiums by Industry (% share)

Industry	2020	2019	2018
Energy, power and utilities	14%	8%	9%
Financial institution	14%	29%	33%
Administrative and support services	13%	12%	10%
Shipping, transport and storage	13%	13%	11%
Professional services	12%	11%	8%
Technology and telecoms	10%	5%	6%
Automotive, manufacturing and retail	6%	5%	6%
Healthcare	4%	4%	3%
Wholesale and retail	4%	5%	5%
Construction	3%	2%	2%
Agriculture, mining, forestry and fishing	2%	2%	2%
Science and research	2%	2%	2%
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%
Government or public sector	<1%	<1%	<1%
Media and gaming	<1%	<1%	<1%
Total	100%	100%	100%

Percentages may not total to 100% due to rounding.

Captive Structure

The Bermuda captive market largely consists of traditional captive structures (65%). Overall, captive structures are relatively unchanged compared to the prior year, with a split of 64% related business, 26% unrelated business and 10% connected business written.

Table 4 – Types of Company Structures

Type	2020	2019	2018
Traditional captive	65%	64%	64%
Insurer/reinsurer	17%	18%	19%
Rent-a-captive	8%	7%	7%
Group captive	7%	6%	6%
Association captive	3%	3%	3%
Agency captive	1%	1%	1%
Total	100%	100%	100%

Percentages may not total to 100% due to rounding.

Definitions of company structure:

- **Traditional 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 license to the policyholders and usually provides administrative services, 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 that insures risks of the member organisations of an association and that may also insure the risks of affiliated companies of the member organisations and the risks of the association itself
- **Agency captive:** A company that is organised by brokers or agencies that retain partial or predominant ownership of the captive and offer it as a facility for coverage to their clients
- **Other:** 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 65% of all business written by Bermuda captives in 2020 compared to 58% in 2019.

The main lines in 2020 included:

- Property and casualty catastrophe (44%)
- Warranty and residual value (22%)
- 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 – hull, liability and war’ line of business which saw a three-fold increase in premium written alongside the property retrocession line of business, which saw an even greater increase in premium written over the prior year.

Table 5 – Short-Tail Lines of Business

Line of Business	2020	2019	2018
Property catastrophe and casualty	44%	50%	49%
Warranty and residual value	22%	19%	18%
Marine - P&I, cargo, hull and liability, war	12%	13%	12%
Property damage and business interruption	11%	10%	11%
Energy - onshore and offshore	5%	4%	6%
Aviation - hull, liability and war	3%	1%	2%
Agriculture	1%	1%	1%
Cyber risk	1%	<1%	<1%
Property retrocession	1%	<1%	<1%
Construction	<1%	<1%	<1%
Environmental risk	<1%	<1%	<1%
Mortgage	<1%	<1%	<1%
Terrorism	<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, cyber risk (though minimal in the premium share of short-tail lines) saw over a 42% increase in premium written compared to the prior year. This has been the consistent trend since 2016, when the BMA began collecting the data, coinciding with the first year of underwriting cyber exposure as a stand-alone line. The BMA expect to see this trend continue, as captives are increasingly utilised in this space amid the hardening market, resulting in rate increases year-on-year.

In 2020, 35% of all business was in long-tail lines, compared to approximately 42% in 2019 and 39% in 2018.

The primary long-tail lines for 2020 were:

- Workers' compensation and employers' liability (26%)
- General liability – public, products, umbrella and product recall (24%)
- Professional Liability – professional indemnity, Directors and Officers (D&O), bankers blanket and Errors and Omissions (E&O) (21%)
- Accident and Health, Travel, Personal Accident (13%)

Table 6 – Long Tail Lines of Business

Line of Business	2020	2019	2018
Workers compensation'/employers' liability	26%	23%	24%
General liability - public, products, umbrella, product recall	24%	21%	22%
Professional liability - professional indemnity, D&O, bankers blanket, E&O	21%	18%	19%
Accident and health, travel, personal accident	13%	11%	11%
Motor - APD and liability	10%	18%	18%
Credit/surety	3%	2%	2%
Medical malpractice	2%	6%	2%
Crime and fidelity	1%	1%	1%
Finite reinsurance	<1%	<1%	<1%
Incidental long-term business (not to be included if a composite license)	<1%	<1%	<1%
Political risks	<1%	<1%	<1%
Total casualty premium	100%	100%	100%

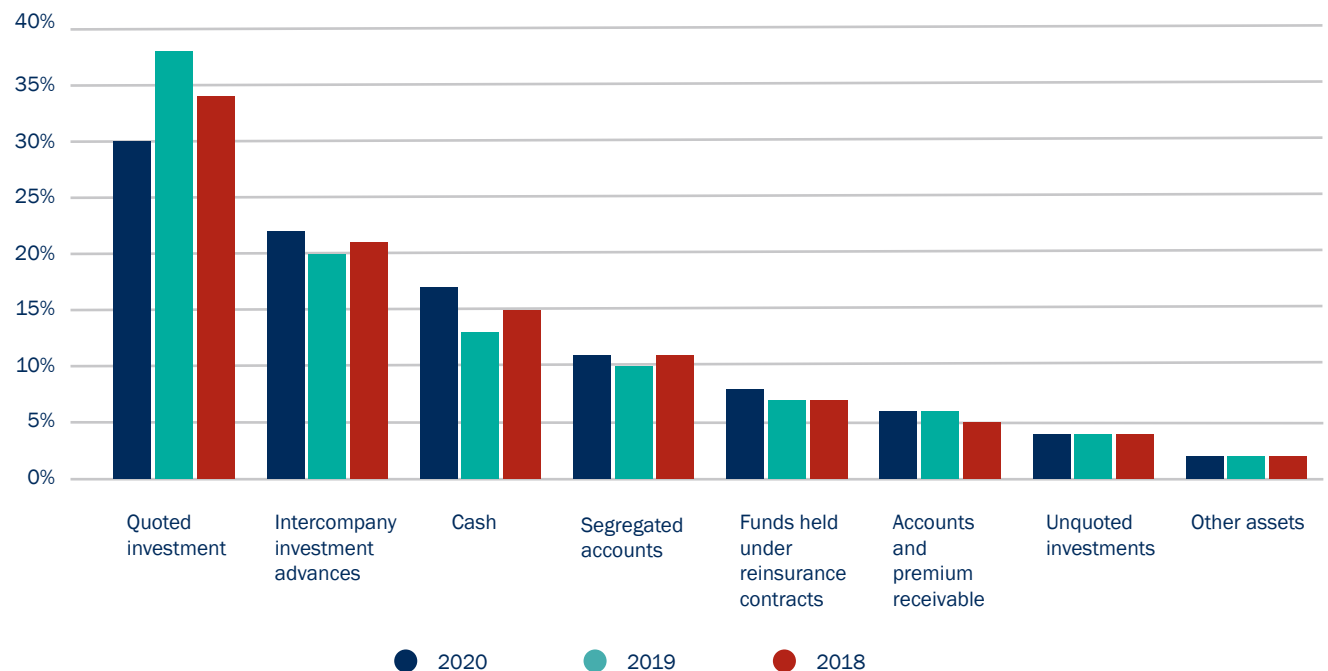
Percentages may not total to 100% due to rounding.

Assets | Composition

As in prior years, the quality of Bermuda captives' asset mix remained strong, with the majority 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)



Also remaining consistent with prior years, Bermuda captives' investments are primarily in investment-grade securities, as highlighted below in Table 7, noting that 69% of the captive market's quoted investments were held in bonds.

Table 7 – Quoted Investment Composition (%)

Investment Type	2020	2019	2018
Bonds	69%	77%	76%
Equities	20%	12%	14%
Other	11%	11%	10%
Total	100%	100%	100%

Almost 81% 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

	2020	2019	2018
Rating AAA	30%	30%	29%
Rating AA	35%	35%	35%
Rating A	16%	16%	15%
Rating BBB	9%	8%	12%
Rating BB	2%	2%	4%
Rating B	1%	2%	1%
Rating below CCC	6%	7%	4%
Total	100%	100%	100%

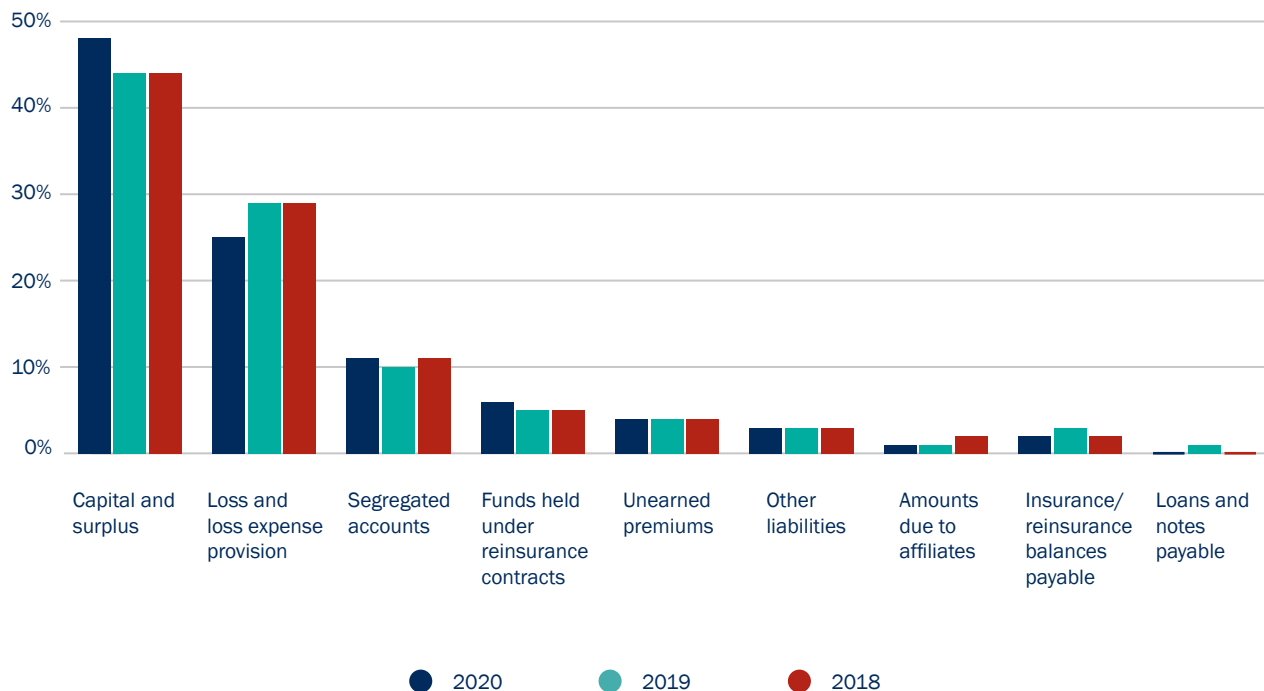
Percentages may not total to 100% due to rounding.

Liabilities and Capital and Surplus

The Bermuda captive market reports a strong ability to make claims payments in the event of losses. The Authority noted loss and loss expense provisions combined with unearned premiums totalling \$40 billion (29% of all liabilities) and capital and surplus of over \$66 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)

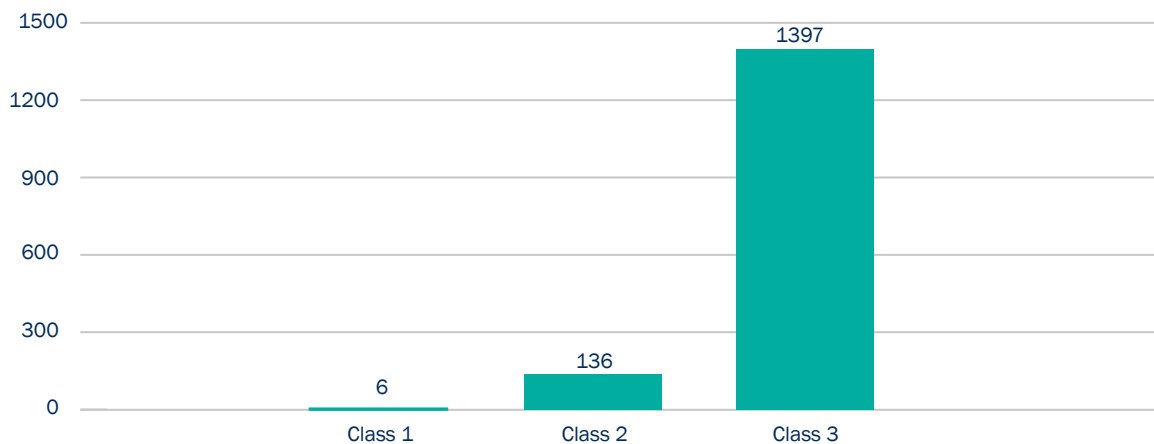


Segregated Accounts

As noted, 17% of the Bermuda Captive Market is operating as Segregated Accounts Companies (SAC) or Incorporated Segregated Accounts Companies (ISAC).

In 2020, the total segregated accounts and incorporated segregated accounts in our registered SAC and ISAC were in excess of 1,500. Although SACs are spread across all captive classes, they are predominately registered in the Class 3 bracket, accounting for approximately 83% of the total. The remaining allocation is 14% in Class 2 and 1% in Class 1.

Chart 5 – Cells by Class





SAC and ISAC Premium Details

SAC and ISAC premium accounts for approximately 41% of the total captive premium. The largest lines of business written within the SACs include property catastrophe at 50%, warranty, residual value at 24% and marine. Of the total premium, approximately 76% is written as reinsurance, 20% is written directly, and 4% is written as a combination of both.

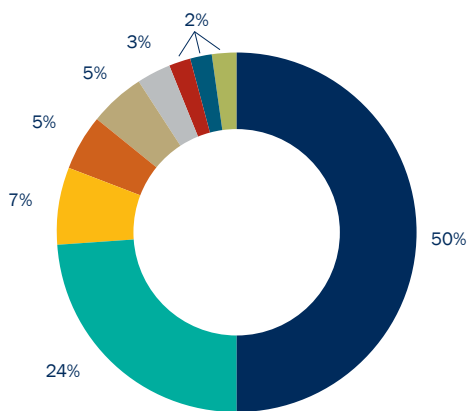


Chart 6 – SAC Premium by LOB

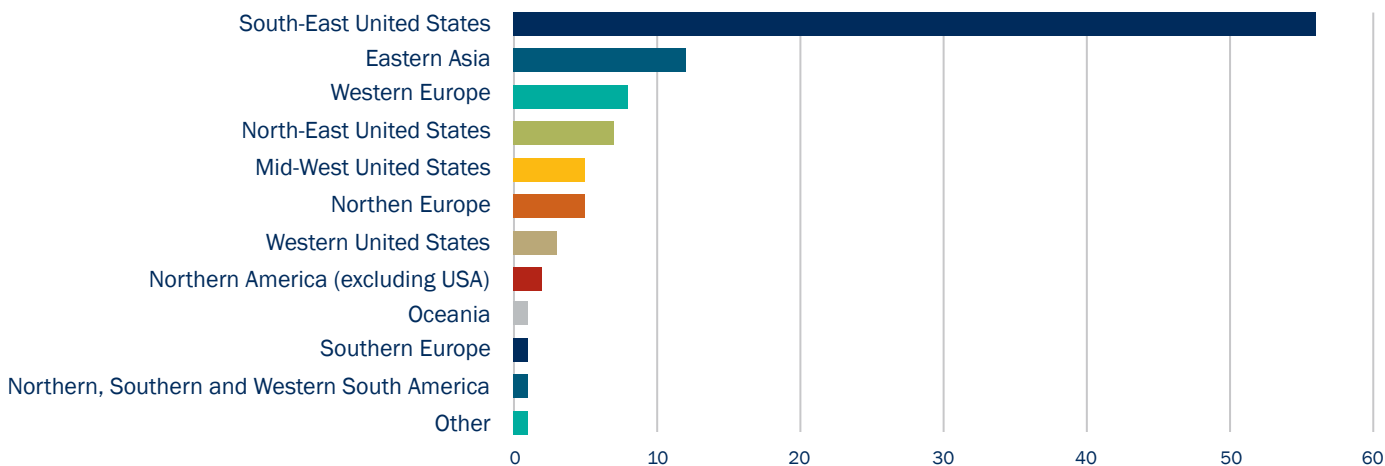
- Property catastrophe
- Warranty, residual value
- Other
- Longevity
- Marine - P&I, cargo, hull and liability, war
- Motor - APD and liability
- Property damage and business interruption
- Accident and health, travel, personal accident
- Workers compensation

Of the 2020 SAC's assets recorded, 47% is held as cash, 25% as quoted investments, 2% as unquoted investments and 26% as other assets.

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

South-East United States accounts for 56% of the SAC premium, 12% in Eastern Asia and 8% in Western Europe.

Chart 7 – SAC Premium by Region



Alternative Capital

Introduced in 2017, the Alternative Capital Schedule facilitates the collection of key data, such as the structure of the insurer and a summary of contract details for those utilising alternative capital structures to manage loss exposures. With this reporting requirement, we are able to ascertain that close to 2% of Class 1, 2 and 3 insurers are utilising alternative capital structures, with approximately 72% covering risk in the USA. Captives used alternative capital structures primarily to cover exposure related to property and casualty catastrophes, as seen in the table below.

Alternative Capital Structures - Line of Business	2020	2019
Property and casualty catastrophe	86%	91%
Incidental long-term business (not to be included if a composite license)	8%	3%
Mortgage	3%	3%
Property retrocession	2%	1%
Credit/surety	1%	<1%
Agriculture	<1%	<1%
Aviation - hull, liability and war	<1%	<1%
Cyber risk	<1%	<1%
Energy - onshore and offshore	<1%	<1%
Environmental risk	<1%	<1%
General liability - public, products, umbrella, product recall	<1%	<1%
Marine - P&I, cargo, hull and liability, war	<1%	<1%
Professional liability - professional indemnity, D&O, bankers blanket, E&O	<1%	<1%
Property damage and business interruption	<1%	<1%
Terrorism	<1%	<1%
Warranty, residual value	<1%	<1%
Workers' compensation/employers' liability	<1%	<1%
Total	100%	100%

Percentages may not total to 100% due to rounding.

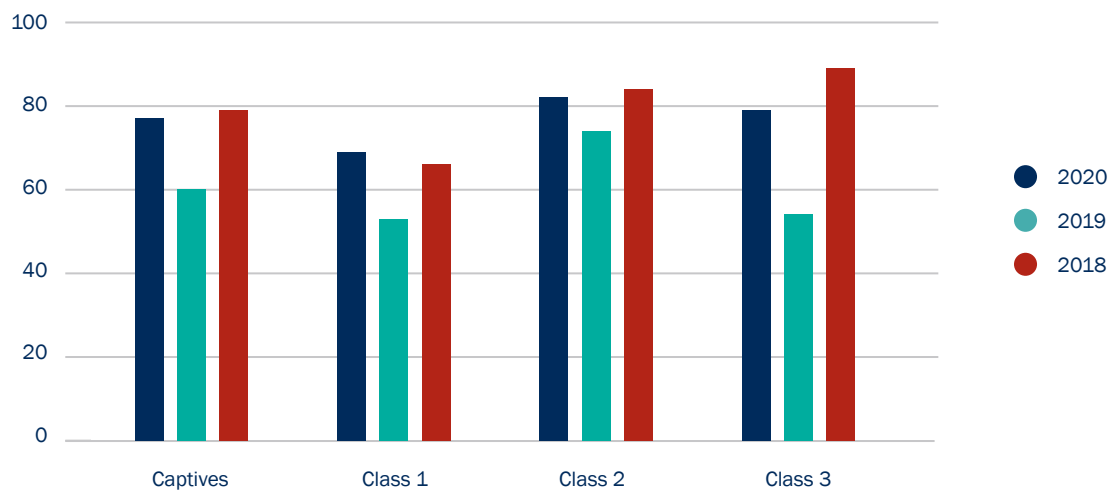


Profitability Ratios

A review of the profitability ratios reveals that the Bermuda captive market was profitable in 2020, both collectively and at each class level, as shown in Chart 8 below.

The average combined ratio for Bermuda captives has fluctuated over the past three years (2020 - 77%; 2019 - 60%; 2018 - 79%), driven by the fluctuation in the loss ratios. In addition, the average loss ratio for Bermuda Captives has fluctuated over the same period (2020 - 53%; 2019 - 48%; 2018 - 64%).

Chart 8 – Combined Ratios



Annex 1

Balance sheet positions (2020)

	All Categories	Class 1	Class 2	Class 3
Quoted investments	30%	16%	49%	19%
Bonds	69%	83%	62%	83%
Equity	20%	17%	24%	12%
Other	11%	0%	14%	5%
Intercompany investment/advances	22%	62%	24%	8%
Cash	17%	18%	10%	22%
Accounts premium receivable	6%	3%	4%	8%
Unquoted investments	4%	0%	8%	3%
Other assets	21%	1%	4%	41%
Total Assets	100%	100%	100%	100%
Capital and surplus	48%	76%	57%	32%
Loss and loss expense provision	25%	16%	34%	19%
Unearned premiums	4%	3%	3%	5%
Loans and notes payable	0%	2%	0%	0%
Insurance/reinsurance balances payable	2%	1%	2%	2%
Amounts due to affiliates	1%	1%	1%	1%
Other liabilities ³	21%	1%	3%	41%
Total	100%	100%	100%	100%

³ The percentage of 'other liabilities' includes sundry SAC liabilities, funds withheld and other sundry liabilities.
Percentages may not total to 100% due to rounding.

Annex 2

Gross written premium by short-tail business lines (2020)

	All Categories	Class 1	Class 2	Class 3
Property catastrophe	44%	37%	6%	62%
Warranty, residual value	22%	0%	24%	23%
Marine - P&I, cargo, hull and liability, war	12%	8%	37%	1%
Property damage and business interruption	11%	46%	16%	7%
Energy - onshore and offshore	5%	4%	12%	1%
Aviation - hull, liability and war	3%	1%	2%	3%
Agriculture	2%	0%	1%	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 (2020)

	All Categories	Class 1	Class 2	Class 3
Workers' compensation/employers' liability	26%	23%	34%	18%
General liability - public, products, umbrella, product recall	24%	36%	9%	38%
Professional liability - professional indemnity, D&O, bankers blanket, E&O	21%	23%	30%	8%
Accident and health, travel, personal accident	13%	9%	14%	15%
Motor - APD and liability	10%	4%	7%	15%
Credit/surety	3%	1%	2%	4%
Medical malpractice	2%	1%	3%	2%
Crime and fidelity	1%	2%	0%	0%

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



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

enquiries@bma.bm

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton HM12
Bermuda

www.bma.bm

