

BERMUDA IS A NO-BRAINER FOR CAPTIVES

Ross Webber, of the Bermuda Business Development Agency, explains why the island domicile is a top choice of Canadian captive business

Bermuda has long been a balmy vacation mecca for Canadian snowbirds, as well as home to an estimated 3,000 Canadian residents who live and work year-round in this 21-square-mile British overseas territory.

These days the island is also increasingly attracting the interest of Canada's domestic and multi-national corporations, particularly those for whom creating a captive insurance presence in the domicile makes geographical and financial sense.

The Canada-Bermuda Tax Information and Exchange Agreement (TIEA) that took effect in 2011—perhaps fittingly, on Canada Day—is one of many reasons that makes doing business on the island fiscally sensible. The bilateral agreement, which essentially put Bermuda on an equal tax footing with jurisdictions that hold tax treaties with Canada, allows Bermuda insurance subsidiaries of certain Canadian corporations with international operations to be eligible for Canadian tax benefits, including the tax-free repatriation of certain dividends to Canada. But ask any Canadian captive owner why they chose Bermuda over other jurisdictions, and tax benefits figure only as an added bonus—the icing on the cake—rather than the primary reason to go offshore.

Located just 650 miles off Cape Hatteras, North Carolina—less than a three-hour daily direct flight from Toronto—the self-governing island is a highly-respected financial services jurisdiction with robust and business-friendly

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regulation, sophisticated infrastructure, British common law, and a world-class workforce that thoroughly understands the insurance business. Over the past 60 years, Bermuda has evolved to become a booming worldwide headquarters for captive insurance companies. Today, Bermuda is the global captive leader with nearly 900 companies generating more than \$20bn in annual gross written premiums. Such a well-established environment offers excellent on-island choices for captive management and other service-providers, from auditors and bankers to IT and legal professionals, a networking 'dream team' valued for sharing information.

"There are other good jurisdictions, but none of them offer everything Bermuda does," explains Philip Cook, CEO of Toronto-based Omega Insurance Holdings Inc., whose subsidiary Omega General Insurance Company is a

Canadian insurer established in 2004.

"Bermuda offers Canadian business the best opportunity for one-stop shopping if an alternative method of risk transfer or risk financing is desirable."

Established industry

One of Bermuda's major drawing cards for captives is that the island also happens to be one of the world's top three reinsurance centres, along with New York and London.

Fifteen of the top 40 reinsurers worldwide have a substantial physical presence in Bermuda, providing captive owners and operators with direct access to billions of dollars in open-market underwriting capacity. A growing number of organisations use Bermuda captives primarily as risk-financing vehicles, or as a means to access the international reinsurance market. It's one of the many reasons why Canadian domestic business, as well as the multinational variety, finds some attraction in captive structures.

Additionally, Bermuda is attracting the lion's share of the recent wave of alternative capital vehicles—including insurance-linked securities, (ILS) catastrophe bonds, and other risk-transfer products—with some \$16bn in listings on the Bermuda Stock Exchange as of 31 December, 2014, an estimated 60% of the world's total. The ILS juggernaut is indicative of two more much-lauded Bermuda market selling points: intellectual capital and the innovation it sparks. The convergence of capital markets and reinsurance

began here, and creative, custom solutions to risk-management challenges are just part and parcel of how the domicile functions.

Reputation is a core ingredient of Bermuda's blue-chip success: the Bermuda Monetary Authority (BMA) has struck a pragmatic balance between flexibility and policing, and thanks to its leadership over the past 46 years, Bermuda is considered a global leader on financial transparency issues, with more than 80 treaty partners around the world, including 41 bilateral TIEAs and 76 co-signatories of the Council of Europe's Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Notably, the island was the first offshore jurisdiction elevated to the OECD's white list for jurisdictions that have substantially implemented internationally agreed tax standards. Bermuda has also signed Model 2 intergovernmental agreements (IGAs) with the US and UK under the Foreign Account Tax Compliance Act (Fatca), along with Chile, Hong Kong, Japan and Switzerland. This track record lends credibility to Bermuda in the eyes of Canadian regulators and other government bodies—a plus for anyone doing business here.

"I believe Bermuda represents the best domicile for Canadian businesses—that conclusion has been reached over many years of dealing with most of the offshore jurisdictions in the Caribbean (and a few of the European captive locations)," Cook says.

"Bermuda is the only jurisdiction that offers all of the benefits."

His Omega General underwrites two specialty accounts—one for a pet insurance programme, the other for a sports and fitness liability insurance programme—that make practical use of Bermuda segregated account captives. In the first case, Omega fronts the Canadian portfolio for a major US pet insurance company, ceding risk via reinsurance to the Bermuda captive.

In the second scenario, Omega underwrites a specialised liability programme for individual gyms, spas and personal trainers in Canada; it underwrites and issues the Canadian policies, handles the Canadian claims, and reinsures a portion of the risk (and profit) to the sponsoring



association's captive in Bermuda, where it can also tap into a thriving reinsurance market for the captive's benefit.

Omega also provides risk-management support for a major Canadian nursing home chain which has an extensive network of US-based long-term care facilities. Due to the scarcity of support from the conventional insurance market for cost-effective coverage in this class of business, the Canadian parent company has established a full-service Bermuda captive. This not only gives it the ability to self-insure its primary professional and general liability exposures, but also the flexibility to design policy wording to suit its particular needs, with direct access to professional and knowledgeable reinsurance capacity in Bermuda.

Indeed, it is this combination of plusses that sets Bermuda apart from other jurisdictions. Cook, and others who have experienced the market, reel off the long list of advantages, which range from the choice of multiple captive formats to suit a variety of business plans to easy access to funding,

auditors, legal services, banking, and other financial services.

"We're here in Bermuda because it's the centre of captive management," says Joe DaSilveira, senior vice president, Liberty Mutual Management (Bermuda) Ltd., a Bermuda-based captive-management company.

"It's an insurance hub, offering expertise in all aspects of insurance-related business areas. The auditors, the regulator, the lawyers—everyone here knows captives and insurance. Bermuda is also a very well-respected jurisdiction with a high standard of regulation. That's important for a lot for companies."

Conclusion

Canadian companies that are considering Bermuda have a partner in the Bermuda Business Development Agency (BDA). The independent, public-private unit offers prospective businesses a custom Concierge Service that makes the set-up of captives and other enterprises a straightforward process.

The agency assists businesses considering relocating or starting up operations in Bermuda, acting as a primary point of contact to connect clients with industry professionals, government and regulatory officials, and service providers such as realtors and relocation experts.

The BDA's goal is to help get new business off the ground quickly and make doing business in Bermuda a smooth process.

For more information on Bermuda or the BDA, go to bda.bm. 

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