



**BDA**

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**BUSINESS  
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# BERMUDA THE WORLD'S RISK CAPITAL

Bermuda's long-respected risk industry comprises leading insurance and reinsurance companies, captive insurers, and alternative reinsurance vehicles in converging capital and risk markets.

Bermuda's captive insurance industry is the global leader, with close to 700 companies generating over \$55 billion in annual gross written premiums. The island is also

one of the world's top two reinsurance hubs, along with London, and home to 13 of the top 40 reinsurers worldwide. Recently, the jurisdiction has attracted the lion's share of alternative capital vehicles—insurance-linked securities, catastrophe bonds, and other risk-transfer products.

Bermuda is the world's single most important property and catastrophe market.

Over the last 20 years, our insurers and reinsurers have contributed \$200 billion to United States customers. They also provide 35 percent of capacity for Lloyd's of London—a total of £11.5 billion.

Connecting Business

## INSURANCE & REINSURANCE

The Bermuda market has more than 100 firms with financial strength ratings, many of which are publicly-traded insurance companies. It is known for its innovation and ability to deliver risk-management products demanded by the world's leading

corporations. In so doing, Bermuda carriers support global industry and commerce.

Bermuda companies have an unparalleled excellence in global risk financing, demonstrated breadth of products, depth of experience and financial strength and stability. In response to challenging economic times and catastrophic events, the Bermuda market continually launches innovative insurance and reinsurance products and provides much-needed capacity. During the excess liability insurance market crunch in the 1980s, ACE and XL were formed to provide solutions that grew the market.

The '80s also saw the creation of segregated account companies out of Bermuda.

In the 1990s, Bermuda reacted to the collapse of reinsurance capacity to cover hurricane risks post-Hurricane Andrew by creating several new and highly capitalised catastrophe reinsurance companies. Many other (re)insurance companies were established in response to 9/11 and post-millennium hurricanes Katrina, Rita, Wilma and Ike.

Bermuda market companies move quickly to settle and pay claims from existing capacity and to create new capacity to meet future needs. A 'Contract Certainty Code of Practice' was developed by the Association of Bermuda Insurers & Reinsurers (ABIR) and the Bermuda Insurance & Reinsurance Brokers Association (BIRBA), demonstrating Bermuda's commitment to international best practices and serves to protect the interests of both (re)insurers and (re)insureds.

## Contributions of Bermuda carriers:

- ▶ Paid \$208 billion to US policy-holders and cedents over the past 20 years
- ▶ Paid \$72 billion to European Union policy-holders and cedents over the past 20 years
- ▶ Paid an estimated 30% (\$30 billion) of 2017 Hurricanes Harvey, Irma and Maria losses
- ▶ Paid \$22 billion to rebuild US Gulf and Florida coasts from seven hurricanes of 2004–05, including 30% of insured losses from Hurricanes Katrina, Rita and Wilma
- ▶ Provide more than 60% of the hurricane reinsurance in Florida and Texas
- ▶ Provide up to one-third of US crop reinsurance in key states
- ▶ Support 25% of US medical liability insurance and reinsurance market
- ▶ Paid USD\$2.5 billion (10%) of New York City World Trade Center terrorism attack claims
- ▶ Paid 20% of combined global loss estimates for the 2015 Tianjin explosion
- ▶ Paid 50% of reported losses for the 2012 Costa Concordia cruise liner sinking
- ▶ Paid 37% of reported liabilities for Europe's 2010 Windstorm Xynthia
- ▶ Paid 51% of reported liabilities for New Zealand's aggregated 2010–11 earthquakes
- ▶ Paid 25% of reported reinsurance losses for the 2016 Alberta, Canada wildfires

## CAPTIVE INSURANCE

A captive is an insurance company whose primary purpose is the financing of the risks of its owners, which are usually not insurance companies. Captives can be used to provide coverage directly or as reinsurance of primary or fronting insurers. They are licensed insurance companies that operate under a different regulatory system than commercial insurers.

Bermuda's risk management industry developed the captive concept during the 1960s. The same ability to innovate and be creative continues today.

The United States is the largest source of captive business for Bermuda, accounting for some 60 percent of the Island's insurance formations. Captives are used to insure and reinsure healthcare, general liability, auto liability, employee benefits, property, marine and other programmes.

New source markets have emerged in Latin America, Canada, Asia Pacific, Africa and Australia as companies moderate traditional insurance-buying practices and increase their use of self-insurance and alternative risk-financing mechanisms. Bermuda is home to almost 250 companies from Latin America across multiple sectors.

Notably, some of the largest companies in Latin America have formed captives and other investment vehicles on the Island, including Colombia's Ecopetrol, Pacifico Rubiales, and the Carvajal Group. Nearly

two-thirds of all Latin America-owned captives in the world are being formed in Bermuda.

The presence of commercial insurance and reinsurance companies in Bermuda allows captive owners and operators to access open-market underwriting capacity not found in any other captive domicile, making Bermuda a one-stop shop.

### TYPES OF CAPTIVES

- ▶ Single parent captive
- ▶ Group captive
- ▶ Special Purpose Insurer (SPI)
- ▶ Segregated Accounts Company (SAC)
- ▶ Special Purpose Vehicle (SPV)

### CAPTIVE ADVANTAGES

- ▶ Captives can help reduce the cost of insurance programmes by mitigating or avoiding commercial insurers' administrative overhead and recapturing underwriting profits and investment income.
- ▶ A captive owner can benefit from its own individual loss experience rather than pay premiums based on industry-wide losses or perceptions.
- ▶ A captive earns investment income on loss reserves and retained premiums.
- ▶ Depending on its mix of business and ownership structure, a captive may offer tax-planning advantages.
- ▶ Captives can centralise the financial and administrative operations of a corporate insurance programme, bringing greater loss-prevention control.
- ▶ Captives can be used as vehicles for funding the exposures a company decides to self-insure, or for which commercial insurance cover is unavailable or uneconomical.
- ▶ As a captive matures and its surplus increases, it will develop a greater capacity to retain risk. The increased surplus will enable companies to be less reliant on commercial markets.

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## HEALTHCARE CAPTIVES

The Bermuda market is a leading provider of healthcare coverage. With local capacity in the jurisdiction to write up to \$400 million for any single risk, a solid track record of paying claims, and some 40 professionals writing healthcare insurance and reinsurance for a full spectrum of entities, the Island has seen substantial growth in the sector over the past five years. Bermuda provides

a diverse menu of healthcare risk solutions, catering to everything from stand-alone hospitals and long-term care, to fully integrated healthcare delivery systems, and countrywide, for-profit hospital chains. Bermuda has become the market of choice for healthcare liability insurance buyers due to its capacity, contract certainty, and ability to create new products in response to the market's needs.

## INSURANCE-LINKED SECURITIES (ILS)

The accumulation of reinsurance expertise combined with Bermuda's successful alternate investment fund industry has made Bermuda the leading jurisdiction for the convergence of capital and (re) insurance markets.

More than three-quarters of the world's Insurance-Linked Securities (\$26 billion) are now listed in Bermuda and there is continued interest in third-party, capital-backed reinsurer start-ups.

Collaboration among industry participants led to a fit-for-purpose designation in 2009 of the Special Purpose Insurer (SPI) within the Bermuda Monetary Authority's insurance supervisory structure, with SPIs representing an efficient means to issue ILS such as catastrophe bonds.

The BMA has been proactive in ensuring the regulatory framework governing this sector is appropriate, sensible and robust and has taken steps to increase efficiency, and reduce incorporation time and costs.

## About the BDA

The Bermuda Business Development Agency (BDA) encourages direct investment and helps companies start up, re-locate or expand their business in Bermuda. An independent, public-private partnership, we connect prospective business to industry professionals, regulatory officials, and key contacts in the Bermuda government to facilitate jurisdictional decision-making.

## BDA Business Concierge Service

We offer a Business Concierge Service to partner with companies seeking to establish operations in the jurisdiction. Our team is a single point of contact to connect clients with industry, government, regulatory officials, and services such as realtors, law firms, auditors and relocation experts. Our Concierge Service is also available to existing Bermuda companies.

**Considering Bermuda as your base for business?  
Contact us to arrange an initial consultation so  
we can begin to get things moving for you.**



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