

BMA
CAPTIVE/SPI
REPORT

2017



BMA

BERMUDA MONETARY AUTHORITY



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BERMUDA MONETARY AUTHORITY



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This report highlights results from statutory financial returns submitted through Bermuda Monetary Authority's Electronic Statutory Financial Return (E-SFR) system as of 30th September 2017. The E-SFR system was officially launched in April 2016 for financial year-end returns from 31st December 2016 onwards. The E-SFR system is only applicable to limited purpose insurers Classes 1, 2, 3, A and B, and Special Purpose Insurers (SPIs).

Data in this report is presented in four main ways:

- 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 assets, liabilities and investment allocation
- Profitability indicators

This report predominately covers general business captives - i.e. Class 1, Class 2 and Class 3 insurers - as they comprise 24%, 32% and 27%, respectively, of submitted financial returns. SPIs made up the remaining 16% of submitted filings. Long-term Class A and Class B insurers accounted for less than 2% of submitted filings and were therefore not material to the data findings. References to Bermuda's captive market throughout this report exclude SPIs. Separate commentary on SPIs is included at the end of this report.

Statistics on the market composition:

- 15% of the insurers are in run-off
- 17% of insurers have segregated accounts
- 61% of the market has a "pure captive" company structure
- 21% of the market has an "other" company structure ¹

¹ Refer to page 7 for the definitions of "pure captive" and "other" company structure

In 2016, the majority of risk assumed by Bermuda captives originated in North America – 62% – and Europe – 25%.

Nearly half of the European risk is from Ireland, while one-quarter is from the UK.

Table 1 – Geography of Risk Assumption %

Regions	%
North America ²	62%
Europe	25%
Japan	5%
Central & South America, Caribbean	2%
Rest of Asia	2%
Africa & Middle East	2%
Australia and New Zealand	1%
Total	100%

Totals might not add due to rounding

² North America includes US, Canada and Bermuda.

Bermuda remains one of the few captive domiciles which does not concentrate in certain industries or specialise in any one kind of business underwritten for these industries. Instead, it is home to a broad range of industries utilising captives as a key risk management tool.

Parent companies of Bermuda captives operate in a wide variety of industrial sectors led by financial institutions (18%), shipping, transport and storage (14%), and automotive, manufacturing and retail (11%).

Table 2 - Industry of Parent Company %

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

Totals might not add due to rounding

Premium share of the Bermuda captive market is dominated by captives focused on financial institutions (54%) and shipping, transport and storage (11%).

Table 3 – Total Premiums by Industry (% share)

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

Totals might not add due to rounding

Bermuda's captive market is predominately composed of pure captives (61%) that only underwrite the risk of its parent and/or affiliates.

Nearly all rent-a-captives have segregated accounts.

Table 4 - Types of Company Structure	%
Pure Captive	61%
Other	21%
Rent-a-Captive	7%
Group Captive	6%
Association Captive	4%
Agency Captive	1%
Risk Retention Group	<1%
Total	100%

Totals might not add due to rounding

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 any voting control of the captive. The captive facility “rents” its capital, surplus and license to the policyholder, 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 which provides legal segregation for each insurance programme from the liabilities of every other programme and those of the Rent-a-Captive itself.
- **Agency Captive:** A company 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.
- **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.
- **Risk Retention Group (RRG):** Any corporation or other limited liability association whose activities do not include the provision of insurance (other than reinsurance) with respect to the similar or related liability exposure of any other Risk Retention Group (RRG) which is engaged in business or activities. It is important to note that not all RRGs are licensed as captives: US - Liability Risk Retention Act of 1986, 15 U.S.C. § 3901 et seq.
- **Other:** A company carrying on insurance business that does not fit into any of the above categories.

The provision of property coverage represented 55% of all business written by Bermuda captives.

Table 5 - Property Lines (All Property Business = 100%)

Line of Business	%
Property and Casualty Catastrophe ³	38%
Warranty, Residual Value	21%
Marine - P&I, Cargo, Hull and Liability, War	16%
Property Damage and Business Interruption	12%
Energy - Onshore and offshore	7%
Aviation - Hull, Liability and War	3%
Environmental Risk	1%
Construction	<1%
Agriculture	<1%
Property Retrocession	<1%
Terrorism	<1%
Cyber Risk	<1%
Total Property Premium	100%

Totals might not add due to rounding

³ Property and casualty catastrophe includes property catastrophe, industry loss warranty, workers compensation, catastrophe cover and flood. For the purposes of this report, this line is included with the Property lines of business instead of the Casualty lines of business.

Bermuda captives wrote about 45% of all business in casualty lines in 2016.

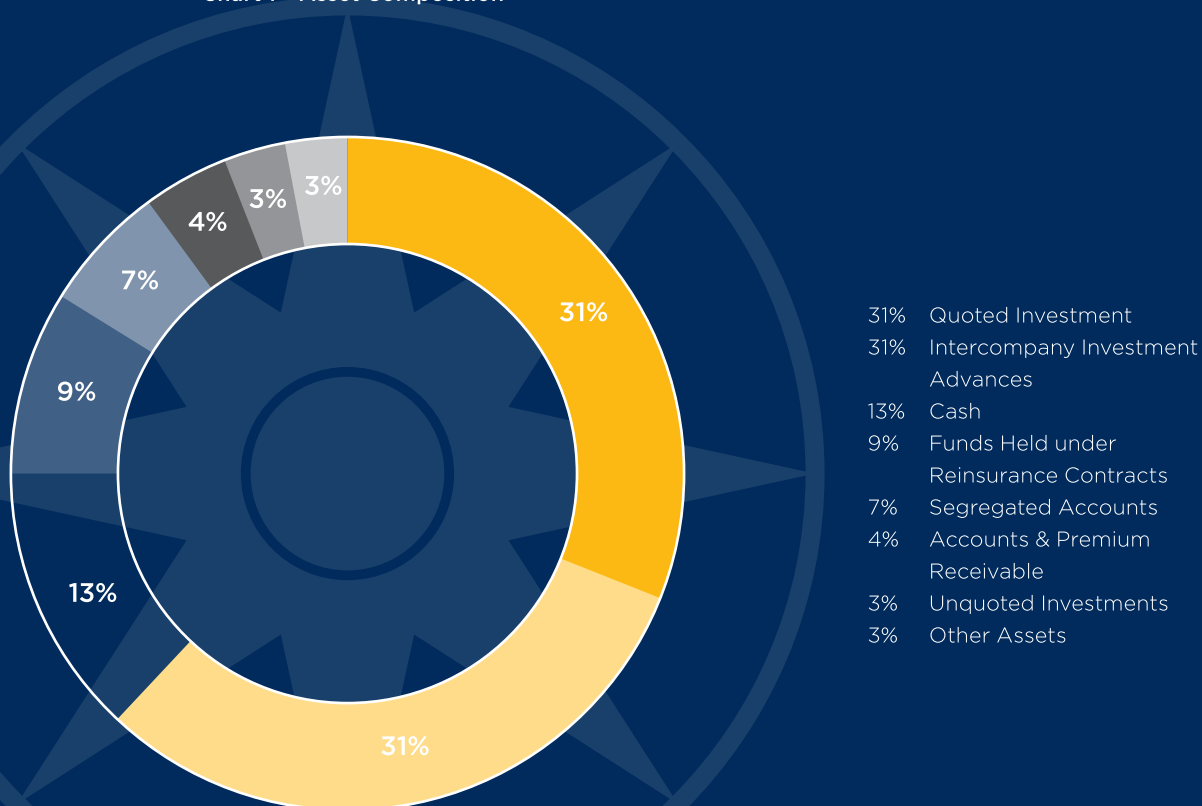
Table 6 – Casualty Lines (All Casualty Business = 100%)

Line of Business	%
Workers Compensation/Employers Liability	29%
Motor - APD and Liability	24%
General liability - Public, Products, Umbrella, Product recall	21%
Accident and Health, Travel, Personal Accident	9%
Professional Liability - Professional Indemnity, D&O, Bankers Blanket, E&O	7%
Credit / Surety	5%
Political Risks	4%
Crime and Fidelity	1%
Medical Malpractice	<1%
Finite Reinsurance	<1%
Incidental long-term business	<1%
Total Casualty Premium	100%

Totals might not add due to rounding

Quoted investments and intercompany investment advances were the largest asset items for Bermuda's captive market at 2016 financial year-end. A significant proportion of the intercompany investment advances balances relate to captive investments, and cash assets pooled and managed centrally as part of the captive's parent/group treasury function. Cash and funds held under reinsurance contracts were also sizeable.

Chart 1 – Asset Composition



See Annex 1 for more detail on asset composition on page 14.

Quoted investments account for 31% of the balance sheet of Bermuda's captive market, compared to 3% for unquoted investments. Bonds represented 79% of quoted investments, with Equities and Other consuming the remainder (see Table 8 below).

Table 8 – Quoted Investment Composition (%)

Bonds	79%
Equities	12%
Other	10%
Total	100%

Totals might not add due to rounding

Over 85% of captives' quoted and unquoted bond and debentures are rated A or better as seen in Table 9.

Table 9 – Investments by Rating

Rating AAA	27%
Rating AA	45%
Rating A	15%
Rating BBB	6%
Rating BB	1%
Rating B	2%
Rating Below CCC	4%
Total	100%

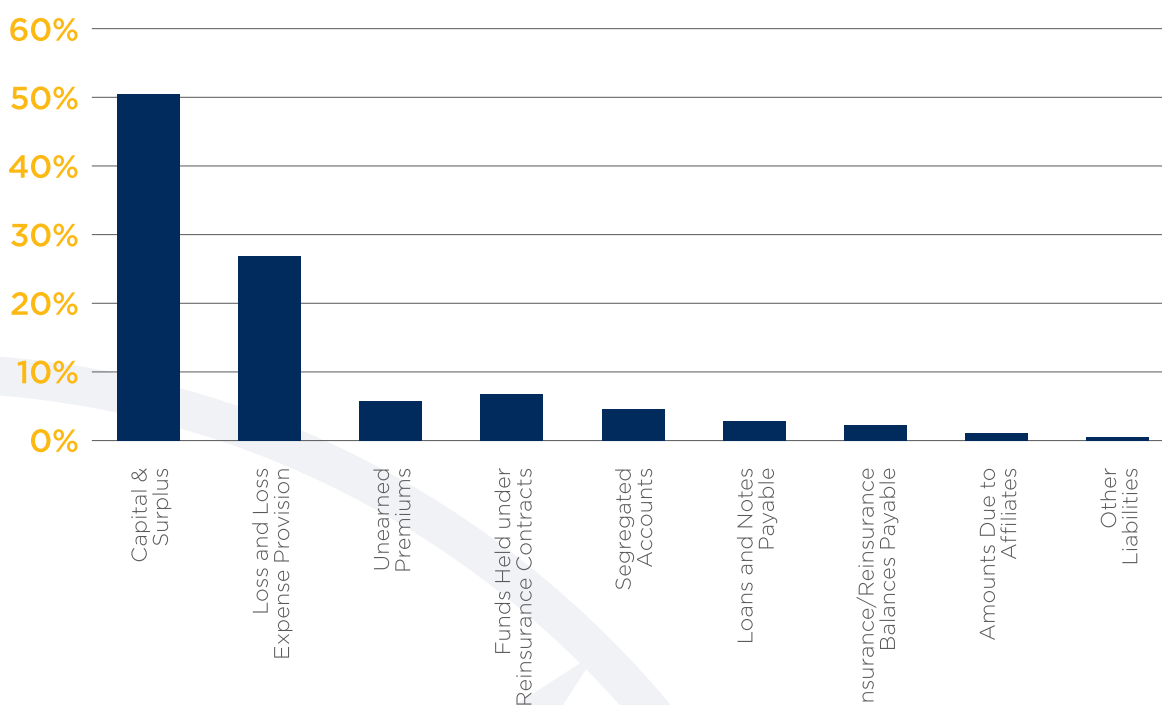
Totals might not add due to rounding

See Annex 1 on page 14 for further quoted investment compositions.

Given high levels of insurance reserves, and capital and surplus, Bermuda's captive market has strong resources to support future claims.

Capital and surplus amounted to over 50% total liability, and capital and surplus. Insurance reserves (loss and loss expense provision plus unearned premiums) accounted for about one-third of all liabilities, and capital and surplus. Significant balances for funds held under reinsurance contracts and segregated accounts liabilities round out the market's liabilities.

Chart 2 - Liability Composition



See Annex 1 on p 15 for more detail on liability composition.

Segregated Accounts

Eighteen percent of the Class 1, 2 and 3 insurers filed for the 2016 financial year-end availed themselves of segregated account companies. These segregated account companies have set aside segregated accounts assets to cover 209% of segregated accounts liabilities.

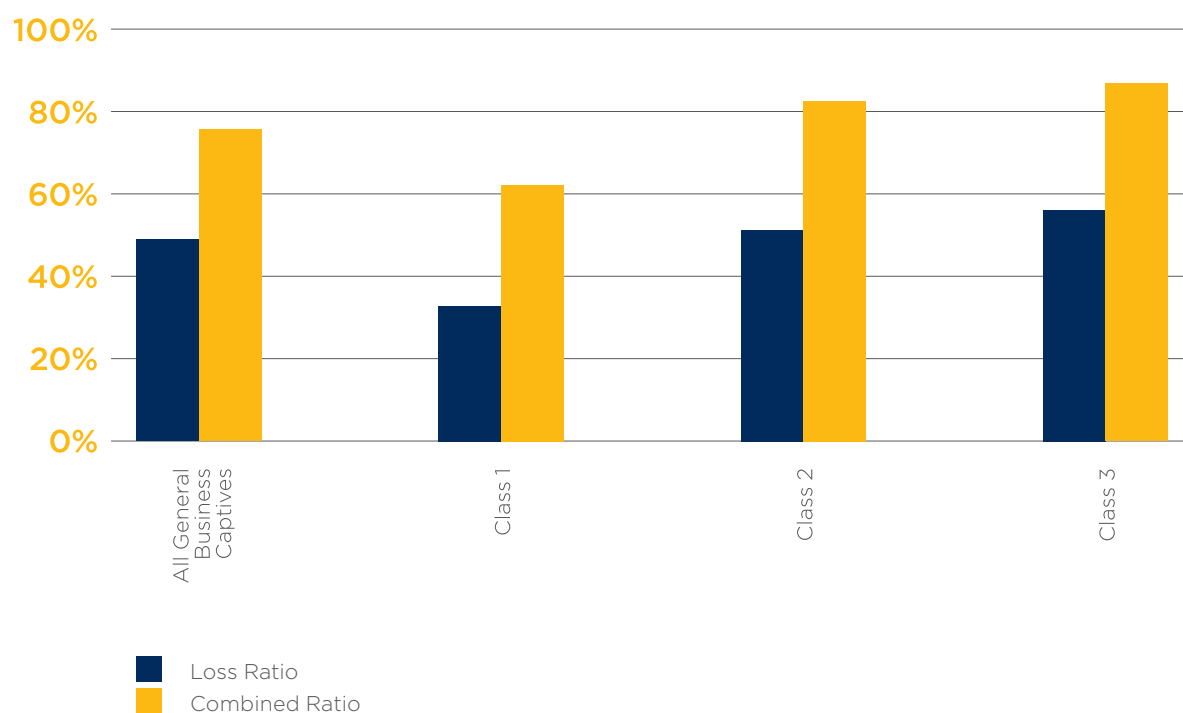
Within the entirety of Bermuda's limited purpose insurer market (including SPIs), lines of business written in the cells were predominately property and casualty catastrophe (38%), workers compensation (24%) and general liability (10%).

The Bermuda captive market had profitable results for the 2016 financial year-end.

In 2016, the median loss ratio and combined ratio for Bermuda general business captives was 49% and 75%, respectively, as shown in Table 10.

Table 10 - Loss and Combined Ratios

	2016
Loss Ratio	49%
Combined Ratio	75%



Annex 1 – % Balance Sheet Positions (2016) ⁴ by Parent Sector

	All Categories	Class 1	Class 2	Class 3	Administrative and Support Services	Agriculture, Mining, Forestry and Fishing	Automotive, Manufacturing and Retail	Chemical and Pharmaceutical	Construction	Energy, Power and Utilities
Quoted Investments	31%	9%	42%	34%	21%	11%	36%	8%	42%	9%
Bonds	78%	85%	58%	91%	76%	86%	52%	77%	74%	99%
Equity	12%	13%	25%	2%	23%	14%	42%	10%	26%	1%
Other	10%	2%	17%	6%	1%	0%	6%	13%	0%	0%
Intercompany Investment / Advances	31%	80%	27%	13%	4%	41%	39%	80%	46%	63%
Cash	13%	5%	15%	15%	24%	30%	15%	7%	7%	13%
Accounts Premium Receivable	4%	2%	7%	3%	4%	6%	8%	1%	3%	5%
Unquoted Investments	3%	1%	4%	3%	0%	11%	1%	1%	3%	6%
Other Assets	19%	3%	6%	32%	47%	1%	2%	2%	0%	5%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Capital & Surplus	50%	86%	57%	31%	33%	49%	50%	77%	56%	90%
Loss and Loss Expense Provision	27%	10%	31%	32%	16%	38%	21%	20%	16%	6%
Unearned Premiums	5%	3%	7%	6%	8%	11%	18%	2%	24%	2%
Loans and Notes Payable	0%	0%	0%	1%	2%	0%	0%	0%	0%	0%
Insurance/ Reinsurance Balances Payable	1%	1%	2%	1%	1%	1%	5%	1%	1%	2%
Amounts Due to Affiliates	2%	0%	1%	3%	0%	0%	1%	0%	0%	0%
Other Liabilities	14%	1%	3%	26%	40%	1%	4%	0%	3%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Totals might not add due to rounding

⁴ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

Annex 1 – % Balance Sheet Positions (2016) ⁴

Financial Institution	Healthcare	Hospitality	Media and Gaming	Professional Services	Science and Research	Shipping, Transport & Storage	Technology and Telecoms	Wholesale and Retail	
43%	27%	38%	25%	71%	4%	33%	19%	9%	Quoted Investments
92%	73%	70%	93%	53%	100%	62%	41%	100%	Bonds
1%	25%	26%	7%	7%	0%	35%	59%	0%	Equity
7%	2%	4%	0%	40%	0%	3%	0%	0%	Other
1%	62%	0%	1%	7%	96%	37%	39%	76%	Intercompany Investment / Advances
15%	3%	51%	71%	3%	0%	18%	15%	8%	Cash
3%	4%	10%	2%	1%	0%	8%	8%	4%	Accounts Premium Receivable
3%	3%	0%	0%	0%	0%	1%	1%	1%	Unquoted Investments
35%	1%	1%	0%	18%	0%	3%	18%	2%	Other Assets
100%	100%	100%	100%	100%	100%	100%	100%	100%	Total Assets
24%	75%	24%	84%	58%	91%	49%	61%	38%	Capital & Surplus
39%	21%	58%	12%	22%	1%	40%	18%	16%	Loss and Loss Expense Provision
4%	2%	8%	2%	1%	0%	1%	2%	35%	Unearned Premiums
1%	0%	0%	0%	0%	0%	0%	0%	0%	Loans and Notes Payable
1%	1%	5%	1%	0%	2%	3%	1%	1%	Insurance/ Reinsurance Balances Payable
4%	0%	1%	0%	1%	0%	3%	0%	0%	Amounts Due to Affiliates
27%	0%	4%	1%	17%	5%	4%	17%	9%	Other Liabilities
100%	100%	100%	100%	100%	100%	100%	100%	100%	Total

Totals might not add due to rounding

⁴ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

Annex 2 - % Gross Written Premiums by Property Business Line (2016) ⁵

	All Categories	Class 1	Class 2	Class 3	Administrative and Support Services	Agriculture, Mining, Forestry and Fishing	Automotive, Manufacturing and Retail	Chemical and Pharmaceutical	Construction	Energy, Power and Utilities
Agriculture	0%	0%	0%	0%	7%	2%	0%	0%	0%	0%
Aviation - Hull, Liability and War	3%	1%	2%	3%	0%	0%	40%	0%	0%	0%
Construction	1%	2%	0%	1%	0%	0%	0%	0%	1%	3%
Cyber Risk	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Energy - Onshore and offshore	7%	26%	11%	1%	0%	0%	0%	0%	0%	52%
Environmental Risk	1%	0%	0%	2%	0%	0%	0%	1%	0%	0%
Marine - P&I, Cargo, Hull and Liability, War	16%	6%	45%	5%	1%	15%	5%	10%	5%	3%
Mortgage	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Property Catastrophe	38%	19%	4%	57%	56%	0%	5%	13%	27%	26%
Property Damage and Business Interruption	12%	44%	8%	8%	5%	82%	10%	77%	8%	16%
Property Retrocession	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%
Terrorism	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Warranty, Residual Value	21%	0%	29%	21%	31%	0%	39%	0%	59%	0%
Total Property Business	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Totals might not add due to rounding

⁵ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

Annex 2 – % Gross Written Premiums by Property Business Line (2016) ⁵

Financial Institution	Healthcare	Hospitality	Media and Gaming	Professional Services	Science and Research	Shipping, Transport & Storage	Technology and Telecoms	Wholesale and Retail	
0%	0%	0%	0%	0%	0%	0%	0%	0%	Agriculture
0%	0%	0%	0%	0%	0%	0%	8%	0%	Aviation - Hull, Liability and War
2%	0%	0%	0%	0%	0%	0%	0%	0%	Construction
0%	1%	0%	0%	0%	5%	0%	0%	0%	Cyber Risk
0%	0%	0%	0%	0%	0%	0%	0%	0%	Energy - Onshore and offshore
3%	0%	0%	0%	0%	0%	0%	0%	0%	Environmental Risk
6%	18%	0%	0%	0%	4%	0%	74%	1%	Marine - P&I, Cargo, Hull and Liability, War
0%	0%	0%	0%	0%	0%	0%	0%	0%	Mortgage
80%	0%	38%	0%	0%	1%	0%	6%	4%	Property Catastrophe
7%	81%	62%	0%	49%	16%	100%	12%	6%	Property Damage and Business Interruption
0%	0%	0%	0%	0%	0%	0%	0%	0%	Property Retrocession
0%	0%	0%	0%	51%	1%	0%	0%	0%	Terrorism
1%	0%	0%	0%	73%	0%	0%	88%	91%	Warranty, Residual Value
100%	100%	100%	100%	100%	100%	100%	100%	100%	Total Property Business

Totals might not add due to rounding

⁵ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

Annex 3 – % Gross Written Premiums by Casualty Business Line (2016) ⁶

	All Categories	Class 1	Class 2	Class 3	Administrative and Support Services	Agriculture, Mining, Forestry and Fishing	Automotive, Manufacturing and Retail	Chemical and Pharmaceutical	Construction	Energy, Power and Utilities
Accident and Health, Travel, Personal Accident	9%	23%	7%	8%	2%	1%	11%	0%	23%	23%
Credit / Surety	4%	3%	8%	4%	0%	2%	0%	5%	0%	3%
Crime and Fidelity	1%	6%	0%	1%	0%	0%	0%	0%	1%	0%
General liability - Public, Products, Umbrella, Product recall	21%	31%	15%	22%	6%	9%	22%	51%	43%	55%
Medical Malpractice	0%	1%	2%	0%	0%	0%	0%	0%	0%	0%
Motor - APD and Liability	24%	3%	6%	31%	32%	3%	7%	10%	0%	5%
Political Risks	4%	2%	0%	5%	0%	1%	0%	0%	18%	0%
Professional Liability - Professional Indemnity, D&O, Bankers Blanket, E&O	7%	11%	25%	2%	12%	0%	1%	0%	9%	0%
Structured/Finite Reinsurance	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Incidental Long-Term Business	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Workers Compensation/ Employers Liability	29%	20%	37%	28%	47%	84%	59%	33%	5%	13%
Total Casualty Business	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Totals might not add due to rounding

⁶ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

Annex 3 – % Gross Written Premiums by Casualty Business Line (2016) ⁶

Financial Institution	Healthcare	Hospitality	Media and Gaming	Professional Services	Science and Research	Shipping, Transport & Storage	Technology and Telecoms	Wholesale and Retail	
7%	22%	0%	1%	0%	0%	32%	0%	16%	Accident and Health, Travel, Personal Accident
4%	0%	0%	22%	10%	0%	1%	0%	33%	Credit / Surety
1%	0%	0%	0%	0%	0%	0%	1%	17%	Crime and Fidelity
22%	17%	61%	21%	10%	0%	16%	17%	9%	General liability - Public, Products, Umbrella, Product recall
0%	10%	0%	0%	0%	0%	0%	0%	0%	Medical Malpractice
32%	1%	1%	0%	2%	0%	8%	36%	4%	Motor - APD and Liability
5%	0%	0%	0%	0%	0%	0%	0%	0%	Political Risks
2%	25%	1%	17%	71%	16%	0%	4%	2%	Professional Liability - Professional Indemnity, D&O, Bankers Blanket, E&O
0%	0%	0%	0%	0%	0%	0%	0%	0%	Structured/Finite Reinsurance
0%	0%	0%	0%	0%	0%	0%	0%	0%	Incidental Long-Term Business
26%	25%	37%	39%	7%	84%	43%	43%	18%	Workers Compensation/ Employers Liability
100%	100%	100%	100%	100%	100%	100%	100%	100%	Total Casualty Business

Totals might not add due to rounding

⁶ Class A and Class B data is excluded from this annex. Parent sectors Charities, Education, Leisure and Public Sector are excluded due to their small populations in the Bermuda market.

SPIs accounted for 16% of the submitted filings within E-SFR as of 30th September 2017.

Since BMA introduced its SPI regime in 2009, this insurance class has been the catalyst for the creation of Bermuda's Insurance-Linked Securities (ILS) market.

This report includes a brief commentary on:

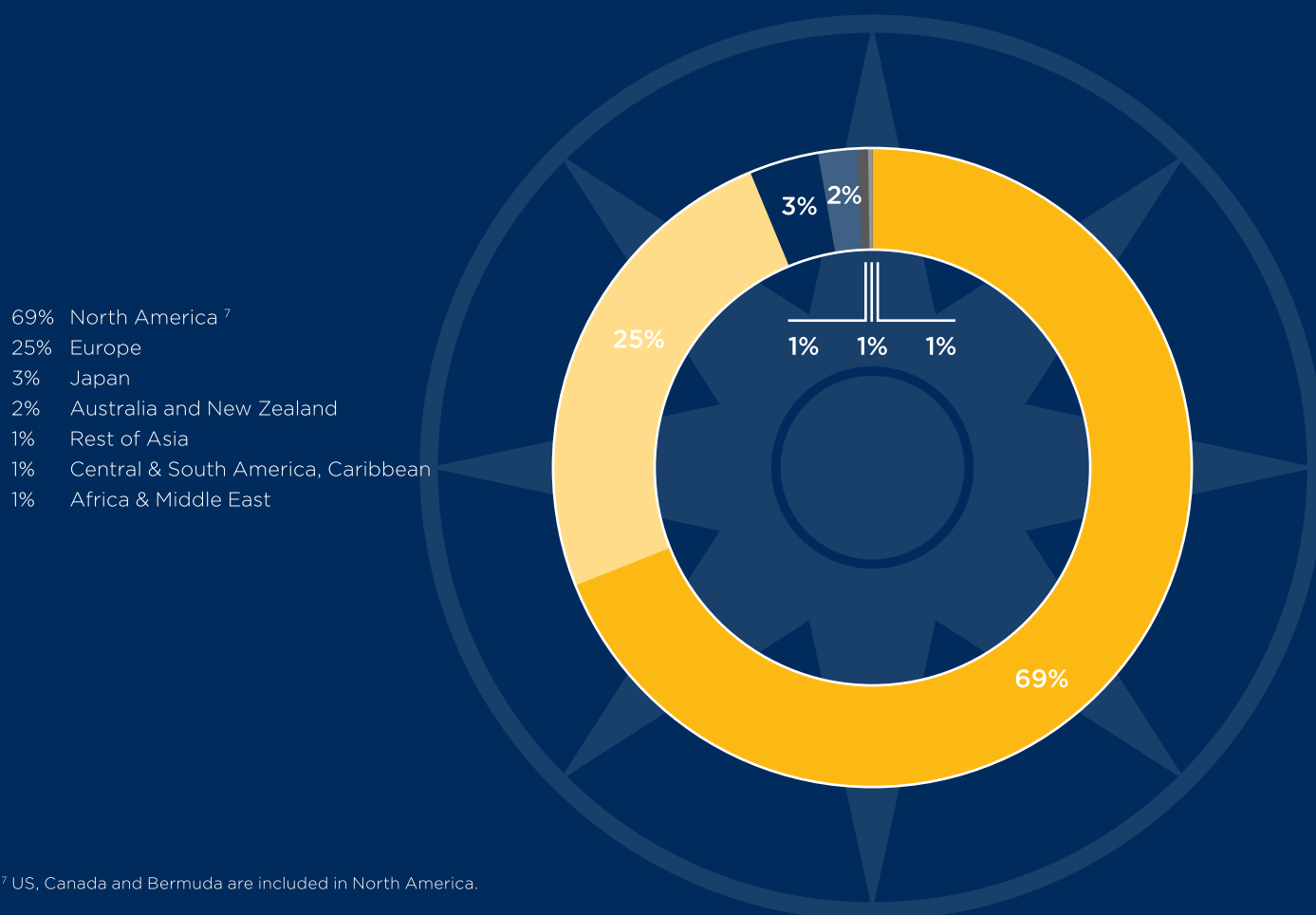
- the geography of risk assumption
- aggregate cover; and
- lines of business written.

Regular commentary on Bermuda's ILS market is included in BMA's quarterly Bermuda Insurance-Linked Securities (ILS) Market Report available on www.bma.bm.

For the year ended 31st December 2016, Bermuda SPIs wrote coverage in 17 regions.

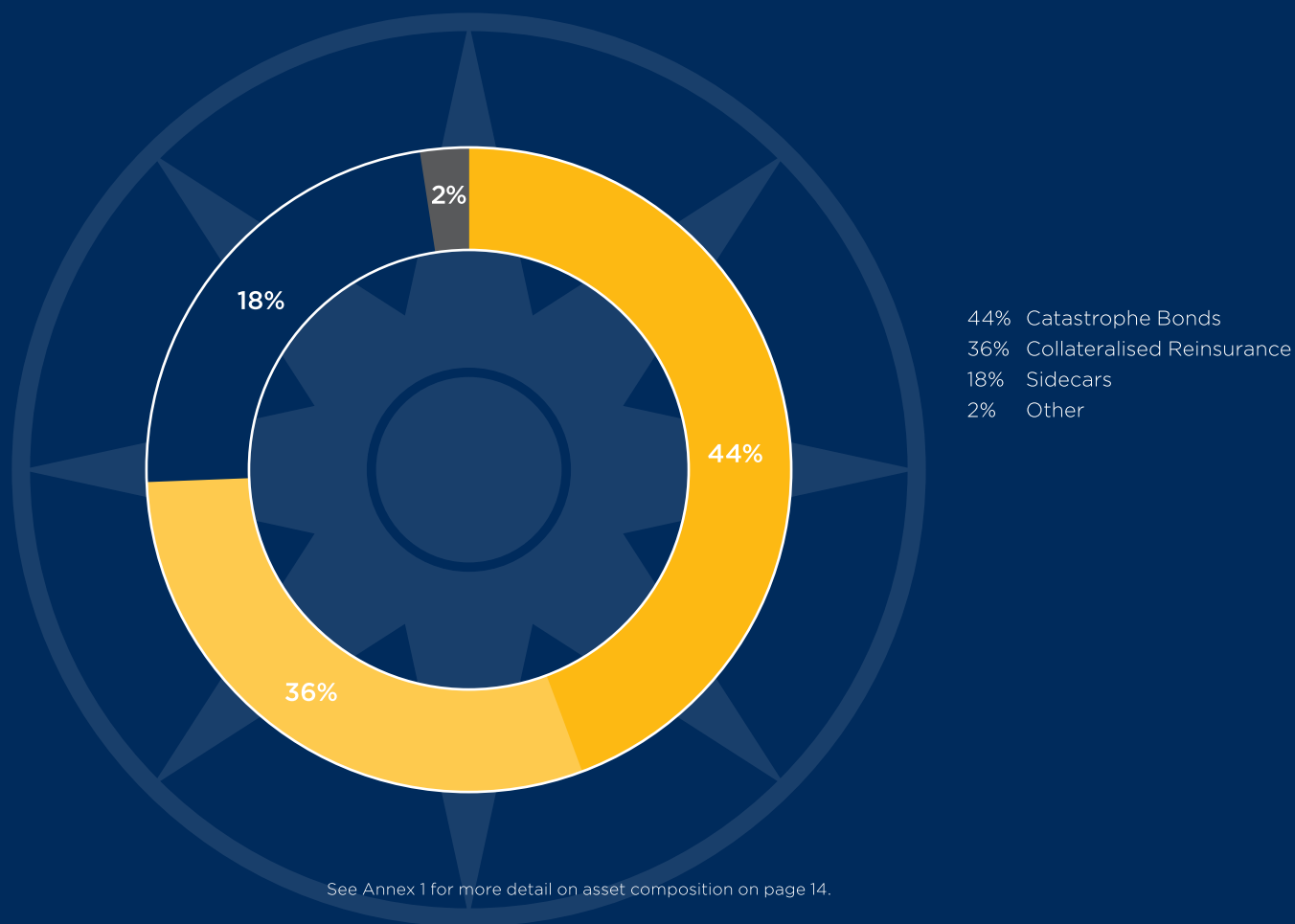
The most significant percentage of risk assumed by Bermuda SPIs originated from North American cedants - (69% ⁷) and Europe (25%).

Chart 3 – Premiums by Location



As shown in Chart 4, Bermuda SPI reinsurance covers consisted primarily of catastrophe bonds (44%), collateralised reinsurance (36%) and sidecars (18%).

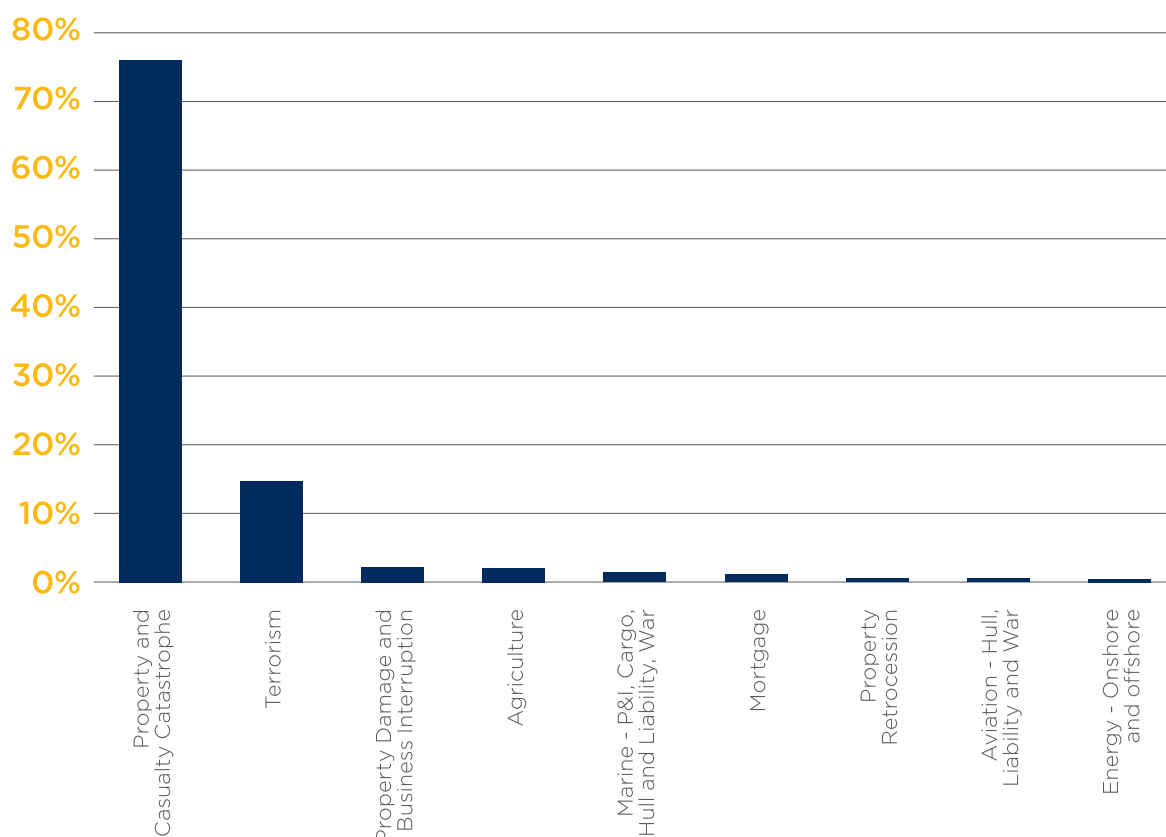
Chart 4 - Bermuda SPIs Deal Structure



Bermuda SPIs were active in 21 statutory lines of business, however, over 90% of premiums were written for property lines.

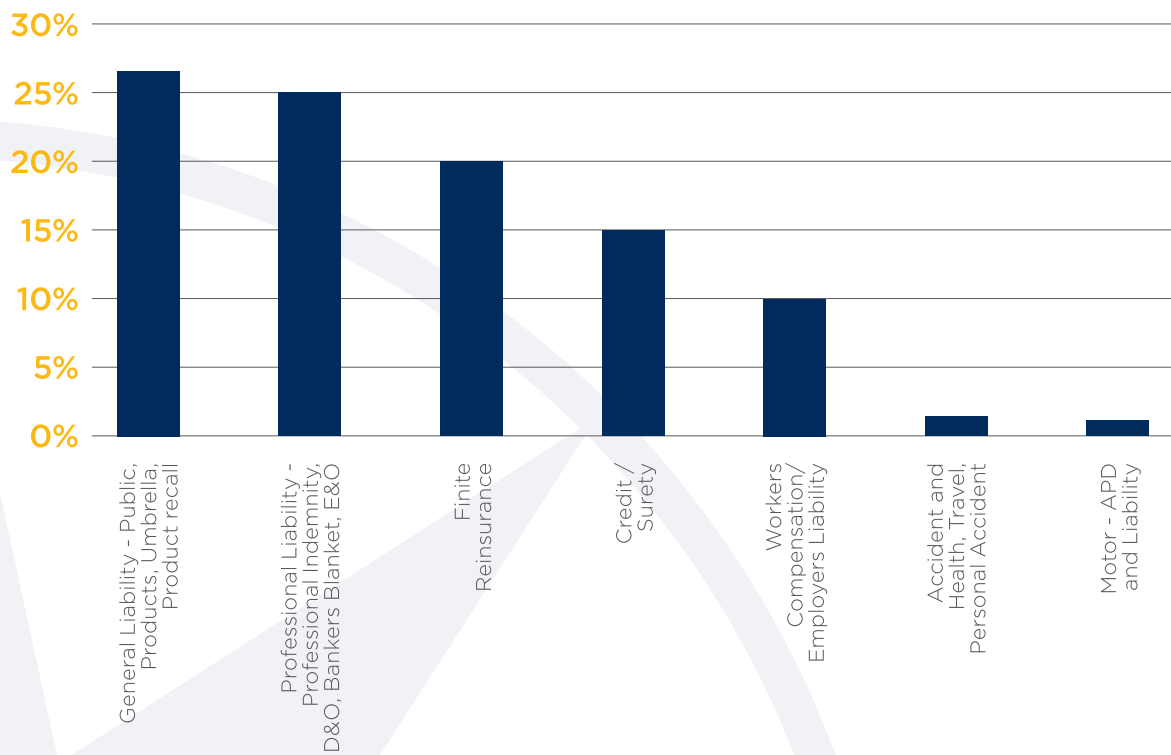
The most significant property line of business covered by Bermuda SPIs was property and casualty catastrophe (77%), followed by terrorism (15%).

Chart 5 - Property Lines of Business



Coverage for casualty lines of business was primarily general liability (27%), professional liability (25%) and finite reinsurance (20%).

Chart 6 - Casualty Lines of Business





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