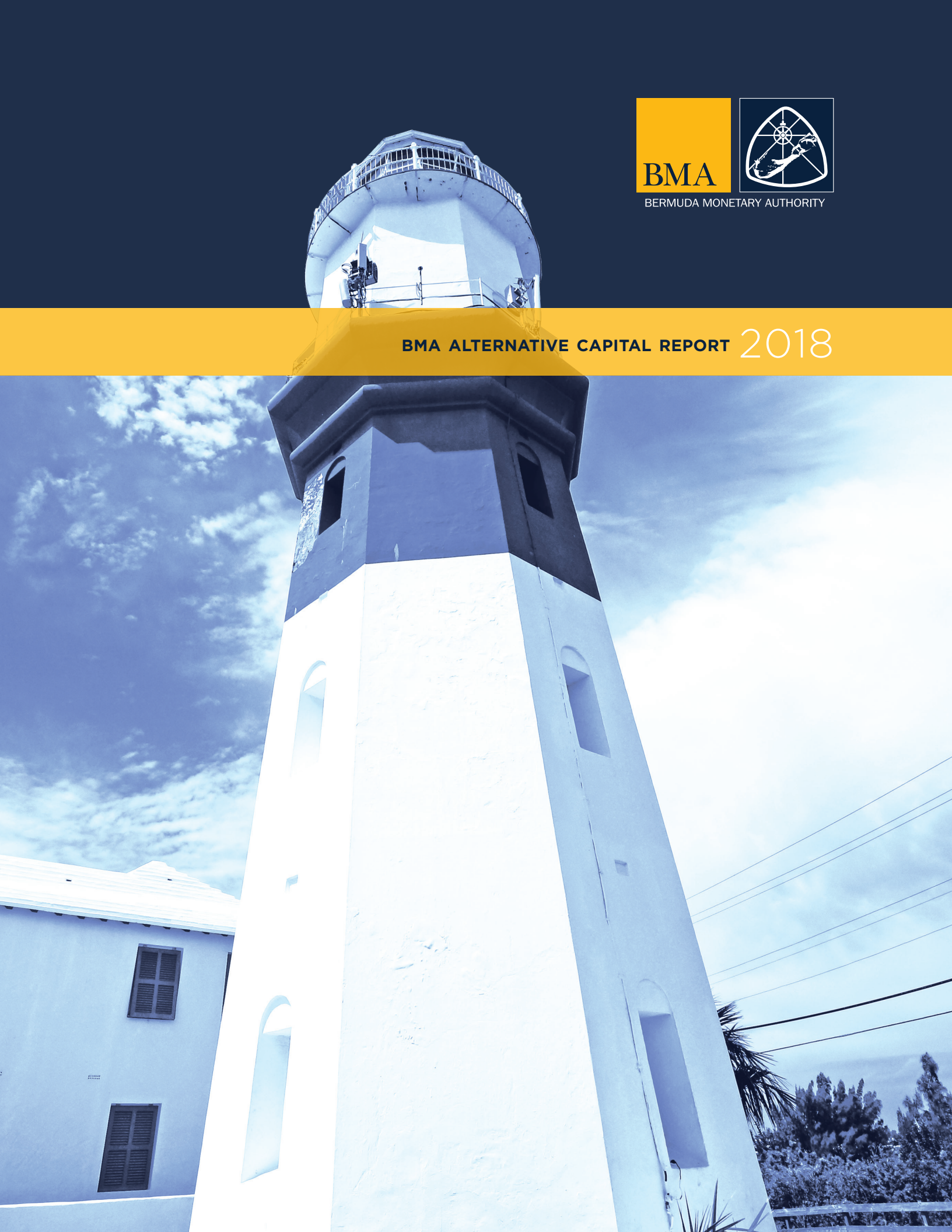




BERMUDA MONETARY AUTHORITY



# BMA ALTERNATIVE CAPITAL REPORT 2018



# EXECUTIVE SUMMARY

---

In 2017, the Bermuda Monetary Authority (Authority or BMA) introduced an enhanced reporting requirement for (re)insurers with alternative capital structures.<sup>1</sup> Specifically, the BMA introduced the Alternative Capital Schedule to facilitate collection of key data such as structure of the insurer and summary of contract details. This enhancement is essential to the Authority in maintaining an effective supervisory regime for this rapidly growing and evolving sector.

---

The information contained in this report is gathered from the Alternative Capital Schedules and Statutory Financial Returns, which were submitted to the BMA by 30 June 2018.

The steady growth of alternative capital within the Bermuda insurance market, particularly following the 2017 losses from hurricanes Harvey, Irma and Maria, indicates that Bermuda continues to be a trusted centre for insurance risk securitisation.

The aggregate exposure of non-life (re)insurers backed by alternative capital was approximately \$51.9B at year-end 2017 while gross written premiums (GWP) was \$3.9B.

The assumed risks were split across nine lines of business covering four major geographical regions. Property catastrophe (including property retrocession) was the biggest line of business written, representing approximately 94% of GWP while the United States (US) was the largest risk region, representing 40% of aggregate limits covered.

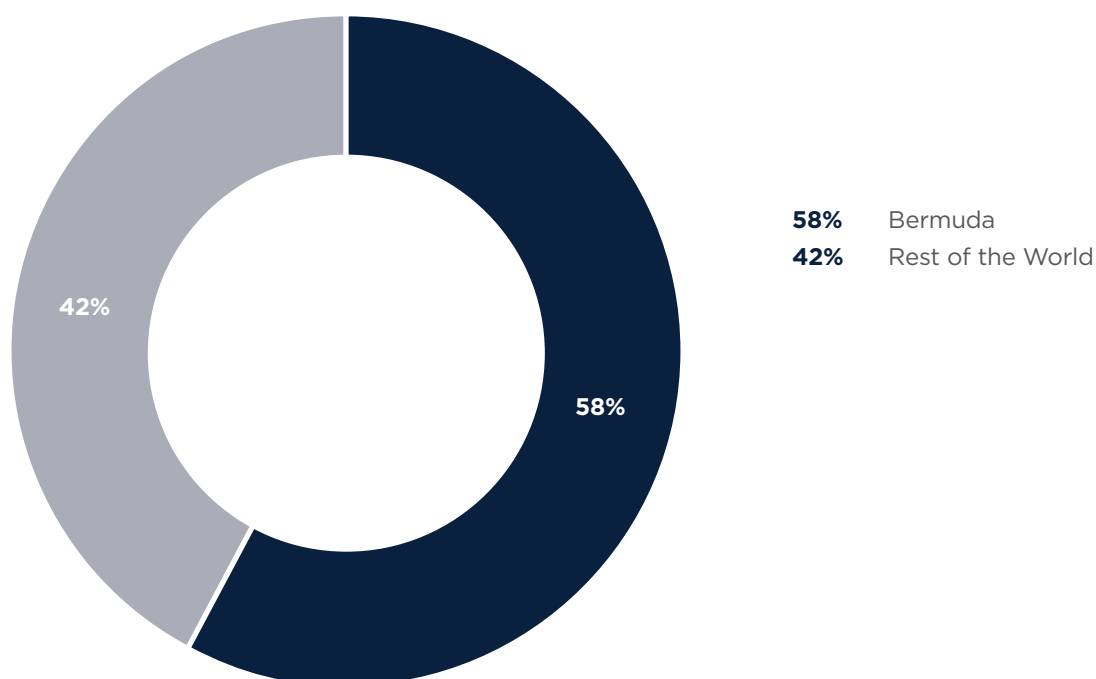
<sup>1</sup> Insurers that conduct business that is financed by a mechanism other than shareholders' capital of the (re)insurance company. This may take various forms such as catastrophe (cat) bonds, industry loss warrants, sidecars, collateralised reinsurers, longevity and mortality bond/swaps and hybrid securities such as preference shares, swaps, and contingent capital such as letters of credit, among others.

# BERMUDA ALTERNATIVE CAPITAL CAPACITY

Alternative capital has continued its steady growth within the global reinsurance market. As at 31 December 2017, industry estimates placed alternative capital at approximately \$89B or about 15% of overall global reinsurance capital (\$81B or 14% of global reinsurance capital in 2016). Bermuda (re)insurers maintained a significant share in the global alternative capital business during 2017, reinforcing Bermuda's leadership position in this sector. For the period ended 31 December 2017, Bermuda's share of total capacity was \$51.9B, or approximately 58% of the global alternative capital market.

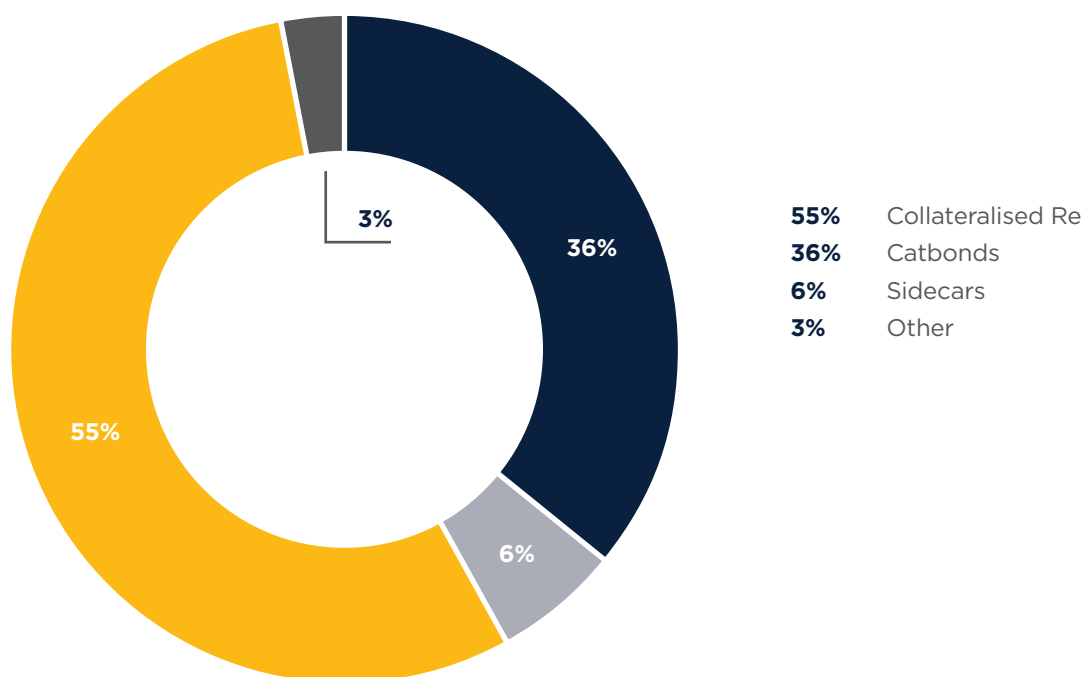
While alternative capital arrangements are used in a number of ways, two structures dominated the Bermuda market place as at 31 December 2017: catastrophe bonds (or cat bonds) and collateralised reinsurance with \$18.9B (36%) and \$28.5B (55%) of capacity, respectively.

**CHART A: BERMUDA ALTERNATIVE CAPITAL BUSINESS VS GLOBAL ALTERNATIVE CAPITAL BUSINESS**



Source: BMA staff calculations and industry reports

**CHART B: BREAKDOWN OF BERMUDA ALTERNATIVE CAPITAL MARKET**



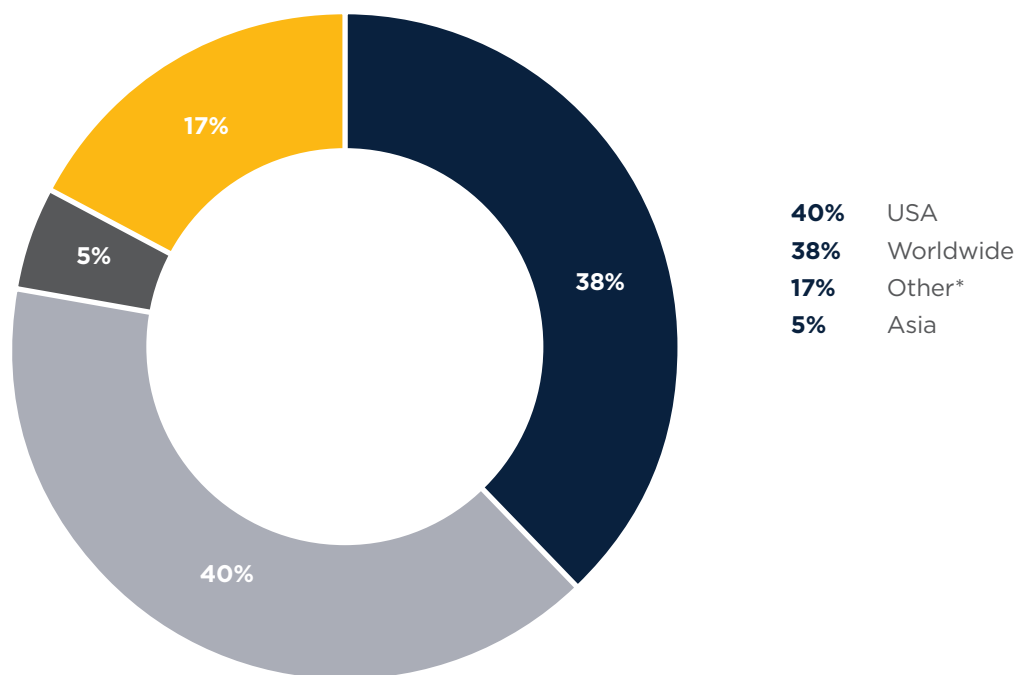
Source: BMA staff calculations

# GEOGRAPHY OF ASSUMED RISKS AND CEDANTS' DOMICILE

The assumed risks came from four major geographical regions: US, Europe, United Kingdom (UK) and Asia. Worldwide cover also represented a sizeable proportion of total exposure. The most significant percentage of exposure lies in the US, which represents approximately 40% of aggregate exposure. Worldwide exposure was the second most significant – it accounted for approximately 38% of aggregate exposure.

Bermuda's alternative capital vehicles reinsured cedants from 17 regions. Again, the US led with approximately 65% of GWP at year-end 2017 followed by Bermuda (15%), the UK (8%) and Japan (4%).

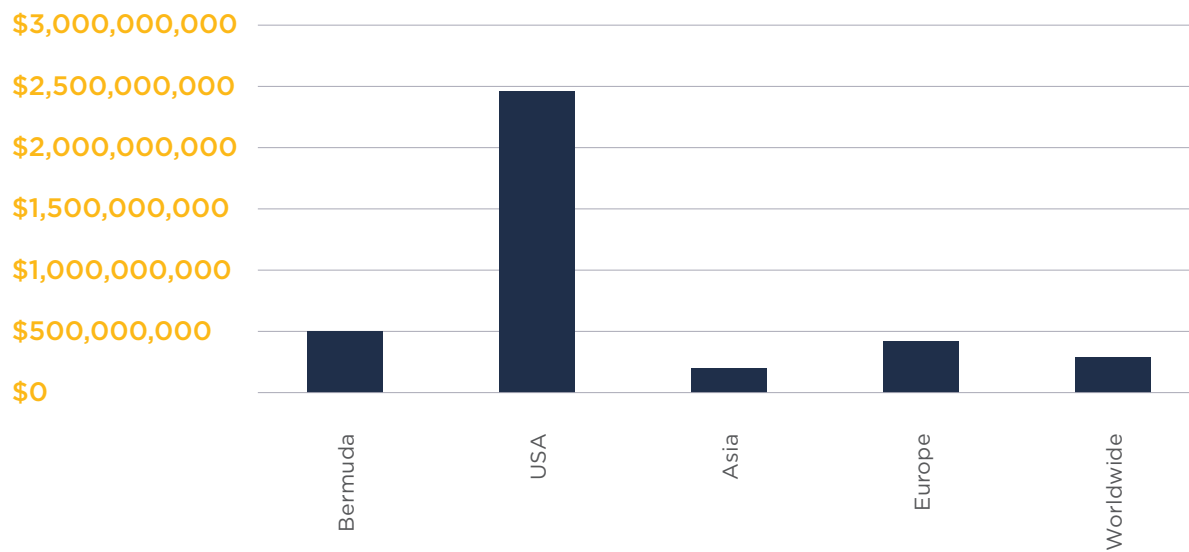
**CHART C: BREAKDOWN OF REGIONAL COVER BY PERCENTAGE OF EXPOSURE.**



\*Includes multiple regions including the UK and Europe

Source: BMA staff calculations

**CHART D: CEDED PREMIUMS TO BERMUDA ALTERNATIVE CAPITAL PROVIDERS BY REGION PER GWP**



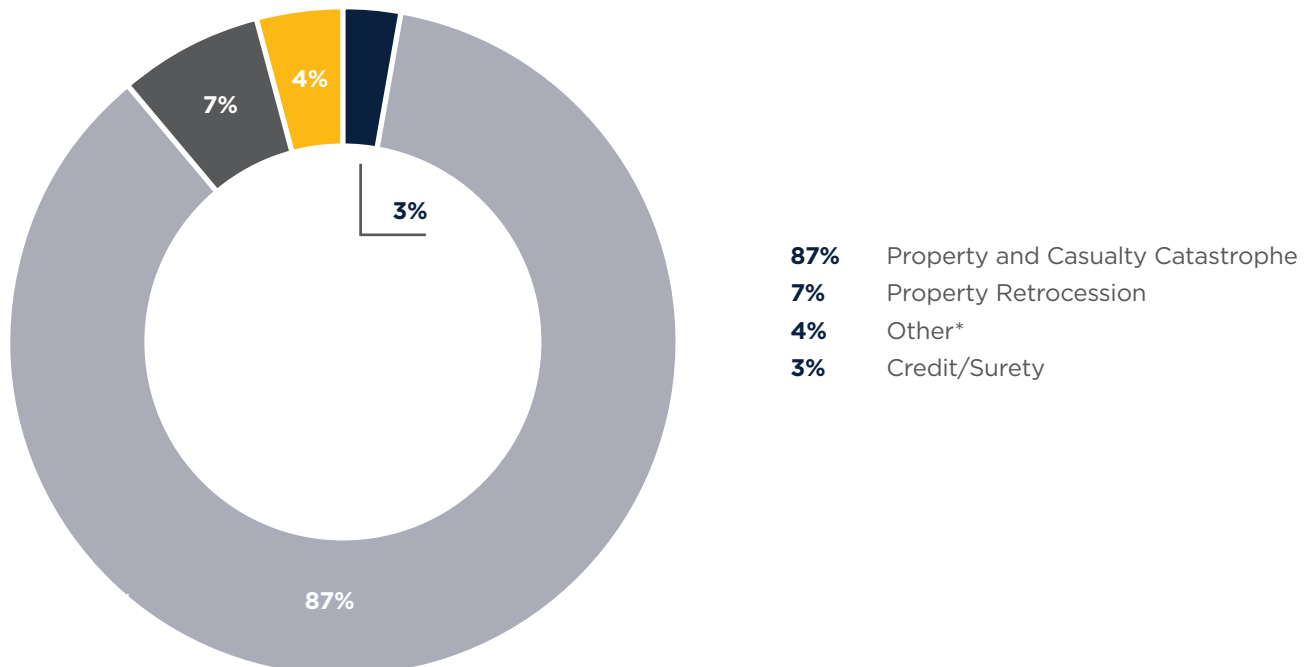
Source: BMA staff calculations

# LINES OF BUSINESS AND DEAL STRUCTURE

The assumed risks were split across nine lines of business. The most prevalent line was property catastrophe (including property retrocession), which represents approximately 94% of GWP at 31 December 2017. The other significant line of business was credit surety, contributing 3% of GWP. Mortgage reinsurance protection was the key contributor within credit surety.

Excess of loss transactions were the most popular structure of risk transfer which accounted for \$31.8B (61%) of aggregate exposure followed by quota share, \$7.2B (14%), and stop loss, \$4.8B (9%).

**CHART E: LINES OF BUSINESS WRITTEN BY GWP**



\*Includes A&H, Agriculture, Aviation, Energy, General liability, Marine and Employers' liability

Source: BMA staff calculations

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

[enquiries@bma.bm](mailto:enquiries@bma.bm)

Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton HM12  
Bermuda

[www.bma.bm](http://www.bma.bm)



BERMUDA MONETARY AUTHORITY

