



BMA CAPTIVE REPORT 2018





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SUMMARY

This report highlights the results from statutory financial returns submitted through the Bermuda Monetary Authority's Electronic Statutory Financial Return (E-SFR) system as of 31 October 2018. The E-SFR system was officially launched in April 2016 for financial year-end returns for 31 December 2016 onwards.

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 asset, 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 25%, 33% and 26%, respectively, of submitted filings. Class A and Class B insurers combined account for less than 2% of submitted filings. References to Bermuda's captive market throughout this report excludes SPIs. Commentary on the Bermuda SPI market for the 2017 financial year-end will be covered in a separate report published on www.bma.bm.

Statistics on the market composition:

- 16% of insurers are in run-off
- 17% of insurers have segregated accounts
- 65% of the market has a “pure captive” company structure
- 67% of the market originate from North America (a 5% increase from the prior year)

¹ Refer to page 8 for the definitions of “pure captive” insurer

GEOGRAPHY OF RISK ASSUMPTION

In 2017, as in the prior year, the majority of risk assumed by Bermuda captives originated in North America and Bermuda – 69% – and Europe – 19%. This is unsurprising considering 75% of captives have a parent in these domiciles. The Authority observed an increase in business written from the United States and a reduction in EU business in 2017 as compared to 2016.

TABLE 1 - GEOGRAPHY OF RISK ASSUMPTION %

Regions	2017	2016
North America and Bermuda ²	67%	62%
Europe	21%	25%
Japan	4%	5%
Central & South America, Caribbean	3%	2%
Rest of Asia	3%	2%
Africa & Middle East	2%	2%
Australia and New Zealand	1%	1%
Total	100%	100%

Totals might not add due to rounding

² North America includes US and Canada

INDUSTRY UTILISATION | DEMOGRAPHICS

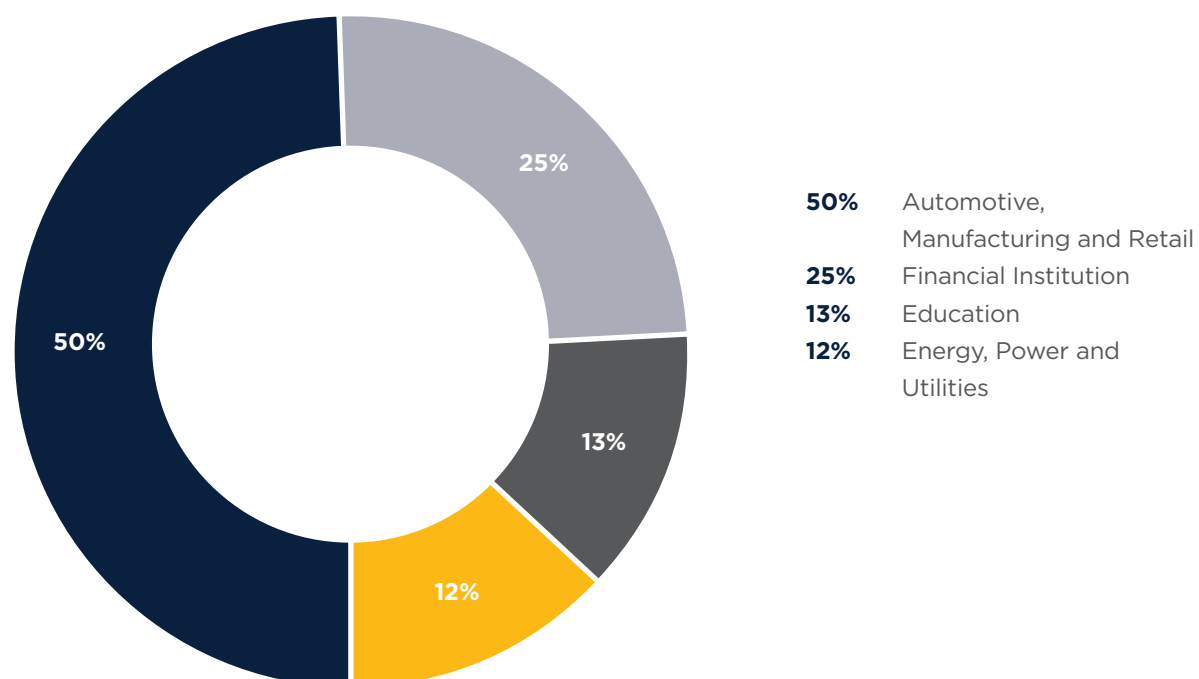
Bermuda continues to be home to a broad range of industries utilising captives as a key risk management tool. Financial institutions continue to be the most significant industry of parent companies.

TABLE 2 - INDUSTRY OF PARENT COMPANY %

Industry	2017
Financial Institution	16%
Shipping, Transport & Storage	12%
Automotive, Manufacturing and Retail	11%
Healthcare	10%
Energy, Power and Utilities	9%
Professional Services	9%
Wholesale and Retail	6%
Administrative and Support Services	6%
Construction	4%
Chemical and Pharmaceutical	4%
Agriculture, Mining, Forestry and Fishing	4%
Technology and Telecoms	3%
Hospitality	1%
Charities & Non-profit Organisations	1%
Media and Gaming	1%
Education	1%
Science and Research	1%
Leisure	1%
Government or Public Sector	<1%
Total	100%

Totals might not add due to rounding

CHART 1 - NEW FORMATIONS BY INDUSTRY OF PARENT COMPANY %



INDUSTRY UTILISATION | PREMIUM SHARE

Premium share of the Bermuda captive market continues to be dominated by captives focused on financial institutions (46%), shipping (12%) and energy (7%).

TABLE 3 - TOTAL PREMIUMS BY INDUSTRY (% SHARE)

Industry	2017	2016
Financial Institution	46%	54%
Shipping, Transport & Storage	12%	11%
Energy, Power and Utilities	7%	5%
Professional Services	7%	2%
Wholesale and Retail	5%	6%
Automotive, Manufacturing and Retail	5%	4%
Administrative and Support Services	4%	5%
Technology and Telecoms	4%	4%
Healthcare	3%	2%
Construction	2%	2%
Agriculture, Mining, Forestry and Fishing	2%	2%
Chemical and Pharmaceutical	1%	1%
Science and Research	1%	1%
Charities & Non-profit Organisations	<1%	<1%
Education	<1%	<1%
Government or Public Sector	<1%	<1%
Hospitality	<1%	<1%
Leisure	<1%	<1%
Media and Gaming	<1%	<1%
Total	100%	100%

Totals might not add due to rounding

CAPTIVE STRUCTURE

Sixty-five percent of Bermuda's captives are pure captives, meaning the captive underwrites only the risk of its parent and/or affiliates. Overall, captive structures are relatively unchanged compared to the prior year.

TABLE 4 - TOTAL TYPES OF COMPANY STRUCTURE

Types	2017	2016
Pure Captive	65%	61%
Rent-a-Captive	7%	7%
Group Captive	6%	6%
Association Captive	3%	4%
Agency Captive	1%	1%
Other	19%	21%
Total	100%	100%

TABLE 5 - NEW FORMATION OF TYPES OF COMPANY STRUCTURE

Types	2017	2016
Pure Captive	100%	75%
Association Captive	0%	13%
Other	0%	13%
Total	100%	100%

Definitions of company structure:

- **Pure Captive:** An insurer writing only the risks of its parent and/or affiliates.
- **Rent-a-Captive:** An insurer 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 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 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.
- **Agency Captive:** An insurer 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.
- **Group Captive:** An insurer established by a group of companies with similar businesses or exposures writing only the risks of its owners and/or affiliates.
- **Association Captive:** An insurer 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.
- **Other:** An insurer carrying on insurance business that does not fit into any of the above categories.

LINES OF BUSINESS | PROPERTY

The provision of property coverage represented 53% of all business written by Bermuda captives in 2017 compared to 55% in 2016.

The main property lines in 2017 included:

- Property and casualty catastrophe (43%)
- Warranty and residual value (21%)
- Property damage and business interruption (15%)

Although not significant for the overall market, the greatest year-on-year percentage increase was experienced by the cyber risk line of business which saw an increase in premium of \$26.3 million (2017- \$42.0 million; 2016- \$15.7 million) a nearly two-fold increase in premiums written.

TABLE 6 - PROPERTY LINES (ALL PROPERTY BUSINESS - 100%)

Line of Business	2017	2016
Property and Casualty Catastrophe ³	43%	38%
Warranty, Residual Value	21%	21%
Property Damage and Business Interruption	15%	12%
Marine - P&I, Cargo, Hull and Liability, War	13%	16%
Energy - Onshore and offshore	6%	7%
Aviation - Hull, Liability and War	1%	3%
Environmental Risk	1%	1%
Construction	<1%	<1%
Agriculture	<1%	<1%
Property Retrocession	<1%	<1%
Terrorism	<1%	<1%
Cyber Risk	<1%	<1%
Mortgage	<1%	<1%
Total Property Premium	100%	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.

LINES OF BUSINESS | CASUALTY

Bermuda captives wrote about 47% of all business in casualty lines in 2017 compared to 45% in 2016.

The primary casualty lines for 2017 were:

- General liability (26%)
- Workers compensation and employers liability (24%)
- Motor (20%)

Significant year-on-year percentage increases were seen in professional liability (2017- \$2.1 billion; 2016- \$0.7 billion) and general liability (2017 - \$3.6 billion; 2016 - \$2.5 billion) lines.

TABLE 7 - CASUALTY LINES (ALL CASUALTY BUSINESS = 100%)

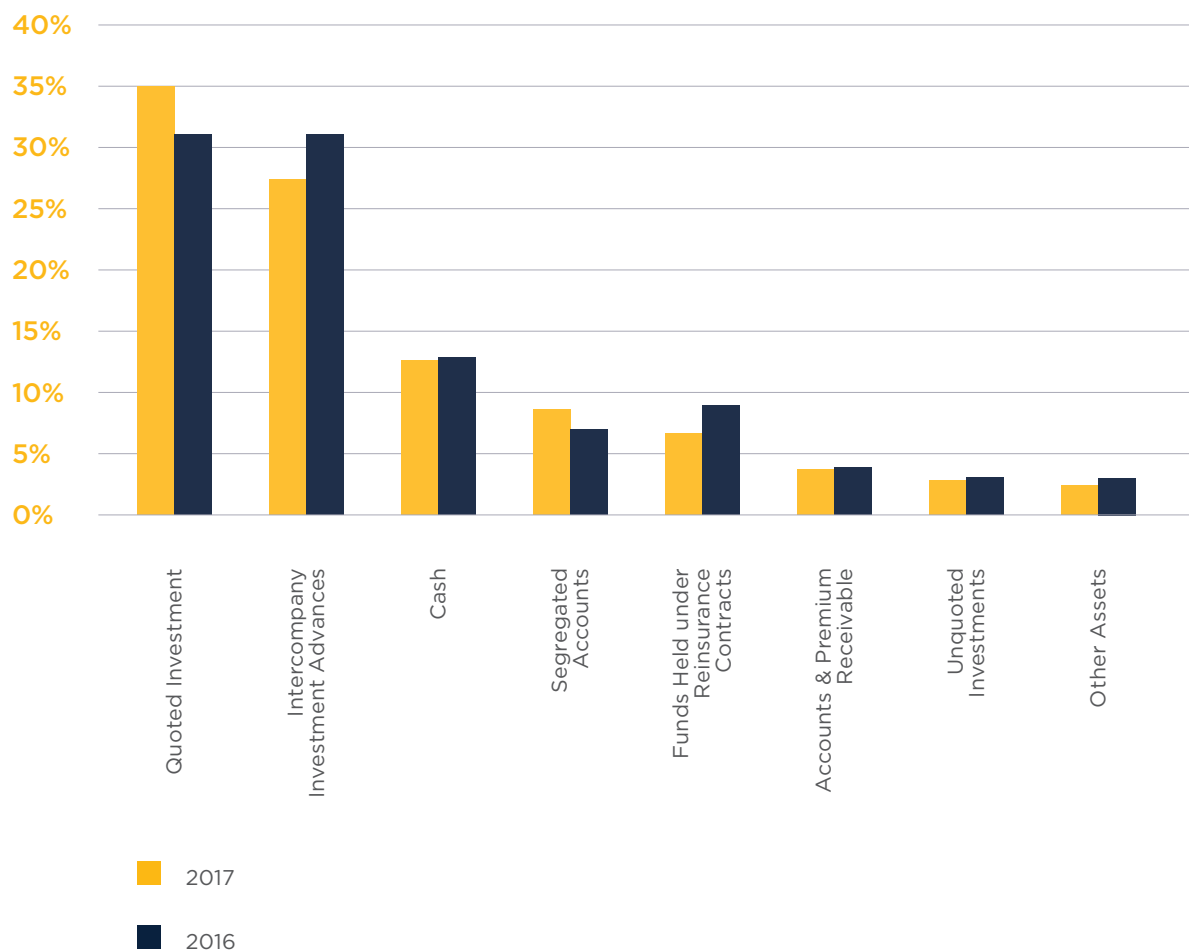
Line of Business	2017	2016
General liability - Public, Products, Umbrella, Product recall	26%	21%
Workers Compensation/Employers Liability	24%	29%
Motor - APD and Liability	20%	24%
Professional Liability - Professional Indemnity, D&O, Bankers Blanket, E&O	15%	7%
Accident and Health, Travel, Personal Accident	8%	9%
Credit / Surety	4%	5%
Crime and Fidelity	1%	1%
Medical Malpractice	1%	<1%
Political Risks	<1%	4%
Incidental long-term business (Not to be included if a composite license)	<1%	<1%
Finite Reinsurance	<1%	<1%
Total Casualty Premium	100%	100%

Totals might not add due to rounding

ASSETS | COMPOSITION

Bermuda captives' assets are primarily held in investments and intercompany investment advances, however the combined percentage of the two has decreased from prior year, as insurers reallocated their asset mix.

CHART 2 - ASSET COMPOSITION



Totals might not add due to rounding

See Annex 1 for more detail on liability composition.

ASSETS | INVESTED ASSETS

Bermuda captives' investments are largely in investment-grade securities.

TABLE 8 - QUOTED INVESTMENT COMPOSITION (%)

	2017	2016
Bonds	73%	81%
Equities	17%	12%
Other	11%	7%
Total	100%	100%

Totals might not add due to rounding

Over 80% of captives' quoted and unquoted bond and debentures are A.M. Best (or equivalent) rated A or better as seen in Table 9.

TABLE 9 - INVESTMENTS BY RATING

	2017	2016
Rating AAA	32%	27%
Rating AA	34%	45%
Rating A	16%	15%
Rating BBB	9%	6%
Rating BB	4%	1%
Rating B	1%	2%
Rating Below CCC	4%	4%
Total	100%	100%

Totals might not add due to rounding

See Annex 1 for further quoted investment compositions.

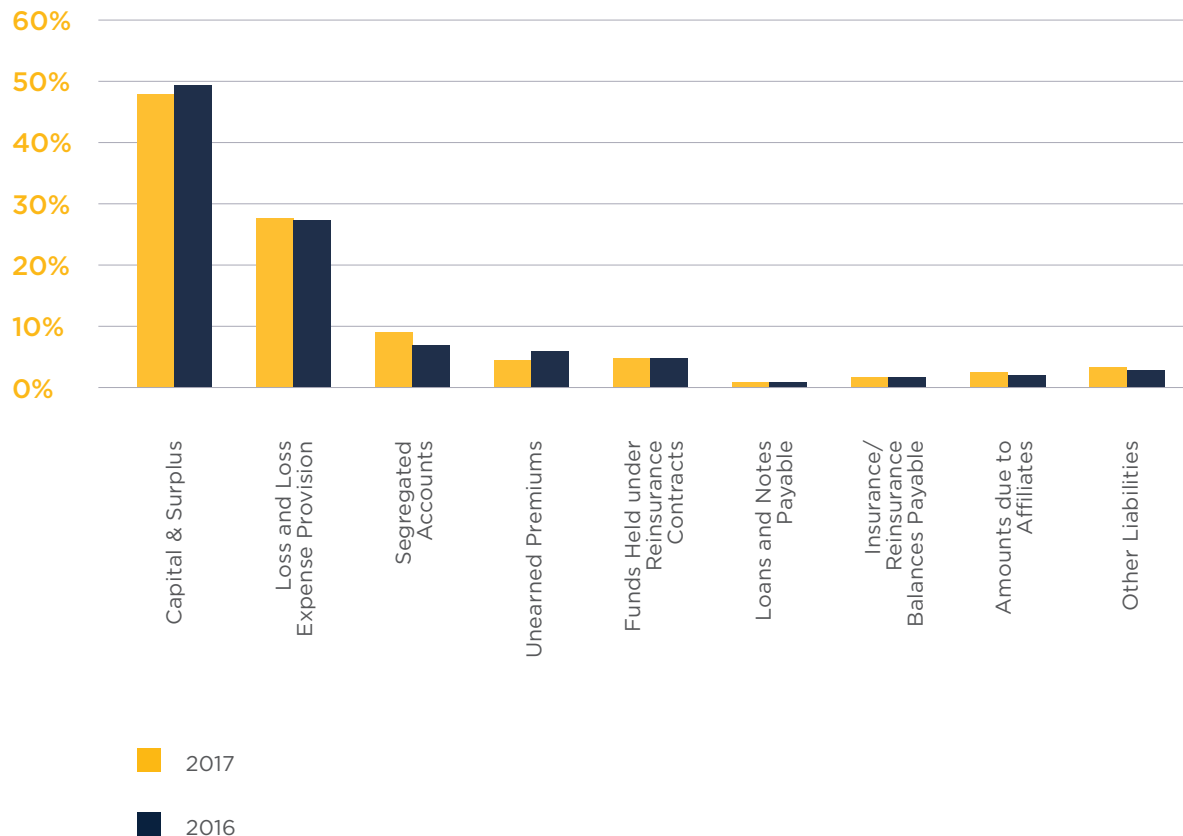
LIABILITIES AND CAPITAL AND SURPLUS

The Bermuda market is adequately positioned to pay claims from reserves and capital and surplus when due.

Similar to 2016, last year 17% of limited purpose insurers reported having segregated accounts. These insurers have set aside segregated account assets to cover 176% (2016 - 209%) of segregated account liabilities. Over 50% of business written in the cells related to workers compensation, motor, and general liability.

The full liability composition for the market is shown in Chart 3 below.

CHART 3 - LIABILITY COMPOSITION



Totals might not add due to rounding

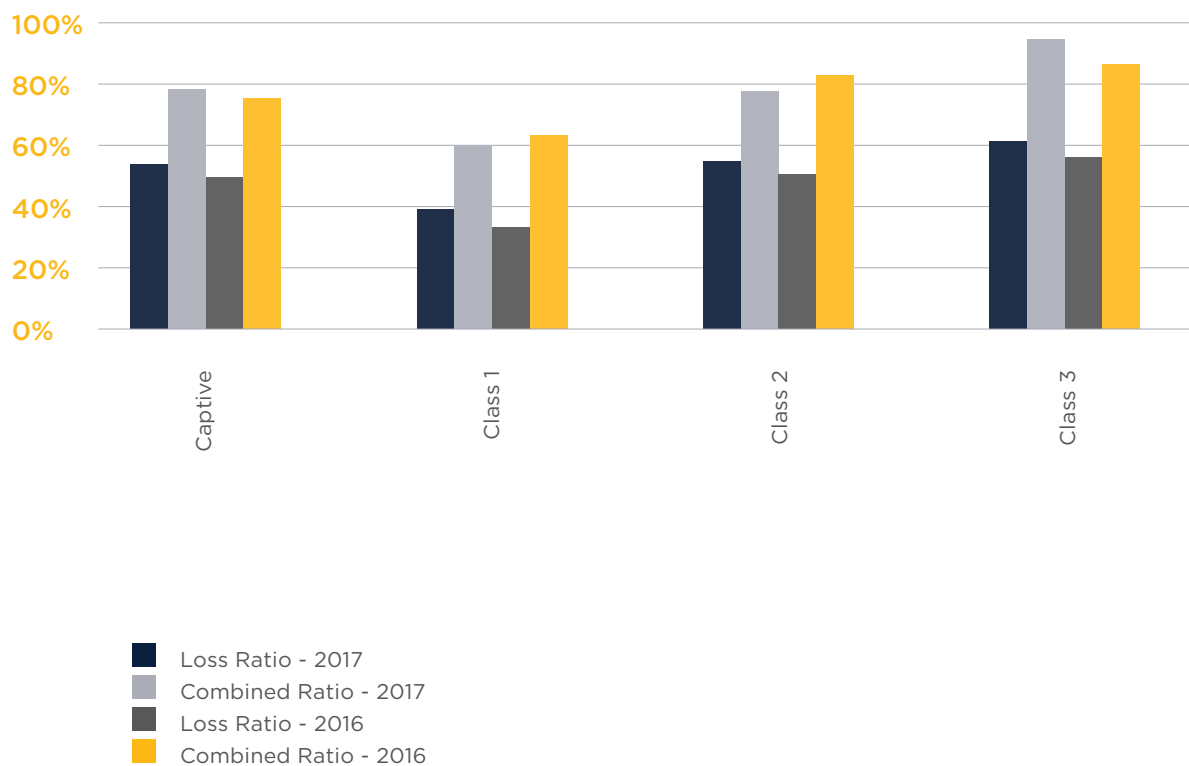
See Annex 1 for more detail on liability composition.

PROFITABILITY RATIOS

The Bermuda captive market was profitable in 2017.

In 2017, the median loss ratio and combined ratio for Bermuda general business captives was 54% and 77%, (2016 – 49% and 75%) respectively, as shown in Chart 4. Note the increase in loss ratio as insurers paid claims primarily related to natural catastrophes in 2017. Overall, the combined ratio is relatively unchanged as insurers restructured in a bid to increase operational efficiency.

CHART 4 - ALL GENERAL BUSINESS CAPTIVES LOSS AND COMBINED RATIOS



ANNEX 1

ANNEX 1 - BALANCE SHEET POSITIONS (2017)

	All Categories	Class 1	Class 2	Class 3
Quoted Investments	35%	9%	53%	33%
Bonds	73%	75%	58%	87%
Equity	17%	20%	28%	4%
Other	11%	5%	13%	9%
Intercompany Investment / Advances	27%	79%	26%	11%
Cash	13%	8%	9%	16%
Accounts Premium Receivable	4%	2%	4%	4%
Unquoted Investments	3%	1%	4%	3%
Other Assets	18%	3%	4%	32%
Total Assets	100%	100%	100%	100%
Capital & Surplus	48%	86%	58%	28%
Loss and Loss Expense Provision	28%	10%	32%	30%
Unearned Premiums	4%	2%	5%	5%
Loans and Notes Payable	0%	0%	0%	1%
Insurance/Reinsurance Balances Payable	1%	1%	2%	1%
Amounts Due to Affiliates	2%	0%	0%	4%
Other Liabilities	16%	2%	3%	30%
Total	100%	100%	100%	100%

Totals might not add due to rounding

ANNEX 2

ANNEX 2 - GROSS WRITTEN PREMIUM BY PROPERTY BUSINESS (2017)

	All Categories	Class 1	Class 2	Class 3
Property Catastrophe	43%	24%	5%	65%
Warranty, Residual Value	21%	0%	27%	20%
Marine - P&I, Cargo, Hull and Liability, War	15%	7%	37%	4%
Property Damage and Business Interruption	13%	63%	12%	7%
Energy - Onshore and offshore	6%	3%	17%	1%
Aviation - Hull, Liability and War	1%	2%	1%	0%
Agriculture	1%	1%	0%	1%
Total Property Business	100%	100%	100%	100%

Totals might not add due to rounding

ANNEX 3

ANNEX 3 - GROSS WRITTEN PREMIUMS BY CASUALTY BUSINESS LINE (2017)

	All Categories	Class 1	Class 2	Class 3
General liability - Public, Products, Umbrella, Product recall	26%	36%	11%	30%
Workers Compensation/Employers Liability	24%	24%	33%	20%
Motor - APD and Liability	20%	4%	4%	29%
Professional Liability - Professional Indemnity, D&O, Bankers Blanket, E&O	15%	13%	36%	7%
Accident and Health, Travel, Personal Accident	8%	12%	8%	8%
Credit / Surety	4%	2%	4%	4%
Crime and Fidelity	1%	6%	0%	1%
Medical Malpractice	1%	2%	3%	0%
Political Risks	0%	1%	0%	0%
Total Casualty Business	100%	100%	100%	100%

Totals might not add due to rounding

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