



BMA Captive Report **2022**





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Summary

The Bermuda captive market remains a leader among the captive jurisdictions worldwide and the genesis of the Bermuda insurance market. The observed growth involves navigation into new innovative spaces, adjustment of strategies and, in many cases, expansion of traditional insurance lines.

In 2021, the Authority noted increases and formations (averaging 17 per year in recent years) across the classes and lines of business relating to the construction industry, energy and employee benefits across various insurance layers, most notably deductible reimbursement coverage. The market is recognised for its maturity, strength and endurance, noting last year's celebration of the 60th anniversary of the first captive established in Bermuda. Since its introduction, the market has evolved significantly to house a broad range of structures with parents of varying sizes addressing one need – bespoke insurance coverage for recognised exposure.

The Bermuda insurance market is synonymous with innovation. With the redefined uses of current captives and the exploration and establishment of new insurance solutions designed to cover emerging risks, the Authority has seen a number of innovative captive insurance structures being developed, such as those to combat losses impacting vulnerable communities or jurisdictions. Additionally, there are notable pivots in the energy and agriculture sectors – specifically parametric insurance covers.

With the increased focus on Environmental, Social and Governance (ESG) initiatives at the parent level, the BMA recognises captives' commitment to transitional measures and ESG solutions. Captives have informed the Authority of the varying ESG considerations pertaining to their industry, demonstrating significant improvements in the metrics tracking progress.

While the BMA continues to expand the supervisory regime to create a suitable framework to include emerging structures, the captive insurance classes continue to offer solutions with appropriate oversight for those captives, covering risks of this nature related to an organisation's exposure. An example of this expansion is the introduction of the Incorporated Segregated Accounts Companies Act 2021, where there is a shift towards companies availing themselves of this new insurer structure.

In continuing its efforts to enhance market engagement, the Authority has been able to keep pace with the evolving needs of the Bermuda captive market and works to maintain adequate oversight of the market activities. With this, the BMA applies a pragmatic approach to the supervision of Bermuda captives, ensuring a proportionate supervisory approach at all stages of assessment.

Climate and Cyber Risks

The Authority continues to enhance its knowledge and expertise in emerging insurance areas. Two key areas of focus are cyber and climate risk. Effective 1 January 2021, the Cyber Code of Conduct came into force with increased regulation around the cyber controls and security requirements of registered insurance entities. The Authority has continued to increase internal resources in line with the importance of this risk. In connection to cyber risk underwriting, it is noted that captives continued exploring the possibilities and the implementation of new solutions in addressing pricing and capacity constraints experienced during the recent renewal periods.



Following industry consultation, with an enhanced focus on mitigating climate risks, the BMA finalised the *Guidance Note: Management of Climate Risk for Commercial Insurers* in March 2023. This guidance is intended for commercial insurers based on a phased-in approach requiring full implementation by year-end 2025; however, it informs captives on governance and risk management expectations related to climate risk. Furthermore, the Authority intends to issue a discussion paper on climate risk disclosure requirements for commercial insurers, which may guide captives' work further in this space.

The BMA has also noted that early industry studies have shown a positive correlation between captive owners and ESG solutions and scores (particularly on social and governance aspects) compared to non-captive owners. The Authority will continue to monitor developments in this area, as well as any captive-specific approaches and actions, to remain informed on the overall direction of ESG progress, as this area is expected to continue to evolve and grow.

Captives continue to play a significant role in closing the climate risk protection gap by providing innovative solutions such as protection for low-carbon technologies. It is noted that these climate strategies are particularly pronounced when aligned with the underlying organisation's business model. The Authority continues to support innovation in this space and particularly supports the growth of emerging climate risk strategies within the captive insurance space in Bermuda.

The aggregation of the electronic reporting data submitted by industry allows the Authority to identify trends and conduct an in-depth review of the Bermuda captive market. This data analysis includes a granular, company-level review and a holistic overview of the market activity. As a result, this report highlights the market results from the 2021 year-end statutory financial returns submitted through the Electronic Statutory Financial Return (E-SFR) system with a focus on the general business captive insurers (Class 1, Class 2 and Class 3 insurers) and the introduction of the long-term business captive insurers (Class A and B).

This report presents data in four key approaches:

- Business written by geographical region, lines of business and industry of the 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 allocations
- Profitability indicators

Statistics on the captive market composition:

- 65% of the market has a 'pure captive'¹ company structure
- 73% of the risk assumed by the market originates from North America
- 15% of insurers are in run-off
- 16% of insurers have segregated accounts

¹ Defined on page 10

Geography of Risk Assumption

The Bermuda captive market maintained its strength and presence in 2021, writing over \$24 billion in gross premium written. As in prior years, most of the risk assumed by Bermuda captives originated in North America and Bermuda (72%), followed by Europe (12%).

Table 1 – Geography of Risk Assumption (%)

Regions	2021	2020	2019
North America and Bermuda	72%	71%	62%
Europe	12%	12%	23%
Japan	5%	6%	5%
The Rest of Asia	4%	4%	3%
Africa and the Middle East	3%	3%	3%
Central and South America, Caribbean	3%	3%	3%
Australia and New Zealand	1%	1%	1%

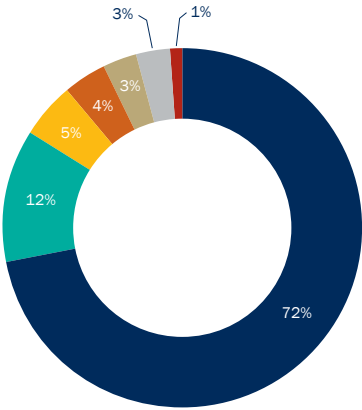


Chart 1 – Premiums by Location

- North America
- Europe
- Japan
- The rest of Asia
- Africa and the Middle East
- Central and South America, Caribbean
- Australia and New Zealand

Percentages may not total 100% due to rounding.

Industry Utilisation | Demographics

Bermuda remains the jurisdiction of choice for an expanding range of industries utilising captives to manage their organisation's risk.

This year, there were no significant changes to the demographics of the parent companies from the prior year.

Financial institutions continue to lead (14%), followed by automotive, manufacturing and retail (12%) and shipping, transport and storage (12%).

Table 2 – Industry of Parent Company (%)

Industry	2021	2020	2019
Financial institutions	14%	14%	14%
Automotive, manufacturing and retail	12%	13%	12%
Shipping, transport and storage	12%	12%	12%
Healthcare	9%	9%	10%
Professional services	9%	10%	9%
Energy, power and utilities	8%	8%	8%
Administrative and support services	7%	6%	6%
Wholesale and retail	6%	6%	6%
Agriculture, mining, forestry and fishing	4%	3%	4%
Chemical and pharmaceutical	4%	4%	4%
Construction	4%	5%	5%
Technology and telecoms	3%	3%	3%
Charities and non-profit organisations	2%	2%	2%
Hospitality	2%	2%	1%
Education	1%	1%	1%
Leisure	1%	1%	1%
Media and gaming	1%	1%	1%
Science and research	1%	<1%	1%
Government or public sector	<1%	<1%	0%
Total	100%	100%	100%

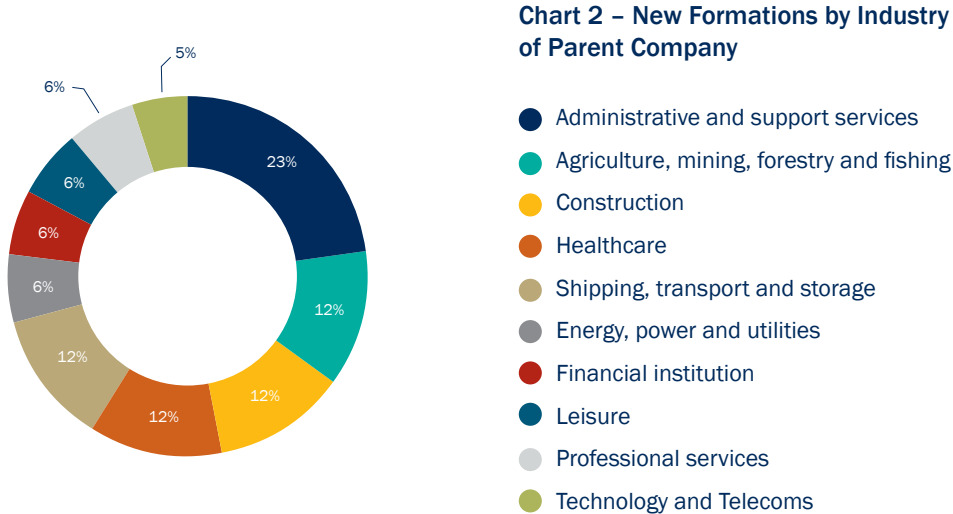
Percentages may not total 100% due to rounding.



Industry of Parent for 2021 New Formations

In 2021, 17 new captives were formed, with the leading industry sector of the parent company being administrative and support services (22%), followed by agriculture, mining, forestry and fishing; construction; healthcare; and shipping, transport and storage being 12% individually. Of the new formations, 14 were classified as ‘pure captives’, writing only the risks of the parent company and/or affiliates; two were classified as insurer/reinsurer and one was classified as ‘rent-a-captive’.

By comparison, in 2020, 12 new captives were formed, with the leading industries of the parent company being 17% from energy, power and utilities; shipping, transport and storage; and wholesale and retail institutions. Of the new formations, 11 were classified as ‘pure captives’, writing only the risks of the parent company and/or affiliates and one was classified as an ‘agency captive’, with similar businesses or exposures writing only the risks of the owners and/or affiliates.



Percentages may not total 100% due to rounding.

Industry Utilisation | Premium Share

In 2021, we saw a shift in the leading industry, with Financial institutions (18%) surpassing energy, power and utilities, which follows in second (15%) and then shipping, transport and storage (13%).

Table 3 – Total Premiums by Industry (% share)

Industry	2021	2020
Financial institution	18%	14%
Energy, power and utilities	15%	14%
Shipping, transport and storage	13%	13%
Administrative and support services	12%	13%
Technology and telecoms	10%	10%
Professional services	9%	12%
Automotive, manufacturing and retail	6%	6%
Wholesale and retail	5%	4%
Healthcare	4%	4%
Construction	3%	2%
Agriculture, mining, forestry and fishing	2%	3%
Science and research	2%	2%
Chemical and pharmaceutical	1%	1%
Charities and 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%

Percentages may not total 100% due to rounding.

Captive Structure

The Bermuda captive market largely consists of pure captive structures (65%). Overall, captive structures are relatively unchanged compared to the prior year, with a split of 65% related business, 25% unrelated business and 10% connected business written.

Table 4 – Types of Company Structures

Type	2021	2020	2019
Pure captive	65%	65%	64%
Insurer/reinsurer	17%	17%	18%
Rent-a-captive	8%	8%	7%
Group captive	6%	7%	6%
Association captive	3%	3%	3%
Agency captive	1%	1%	1%
Total	100%	100%	100%

Percentages may not total to 100% due to rounding.

Definitions of captive 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 voting control of the captive. The captive facility ‘rents’ its capital, surplus and licence to the policyholders and usually provides administrative services, reinsurance and/or is an admitted fronting insurance 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
- **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
- **Agency captive:** A company 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
- **Insurer/reinsurer:** A company carrying on insurance business that does not fit into any of the above categories

Lines of Business | Short-Tail Lines

The provision of short-tail coverages represented 65% of all business written by Bermuda captives in both 2021 and 2020, with 58% in 2019.

The main lines in 2021 included:

- Property and casualty catastrophe (42%)
- Warranty and residual value (23%)
- Marine – protection and indemnity (P&I), cargo, hull and liability and war (12%)
- Property damage and business interruption (12%)

Although minor to the overall market, the greatest year-on-year increase was seen in the ‘agriculture’ line of business, which saw an approximately two-fold increase in premium written. Additionally, property damage and business interruption continue to see steady growth year-on-year.

Table 5 – Short-Tail Lines of Business

Line of Business	2021	2020	2019
Property and casualty catastrophe	42%	44%	50%
Warranty and residual value	23%	22%	19%
Marine – P&I, cargo, hull and liability, war	12%	12%	13%
Property damage and business interruption	12%	11%	10%
Energy – onshore and offshore	5%	5%	4%
Agriculture	2%	1%	1%
Aviation – hull, liability and war	2%	3%	1%
Cyber risk	1%	1%	<1%
Property retrocession	1%	1%	<1%
Construction	<1%	<1%	<1%
Environmental risk	<1%	<1%	<1%
Mortgage	<1%	<1%	<1%
Terrorism	<1%	<1%	<1%
Total property premium	100%	100%	100%

Percentages may not total 100% due to rounding.

In continuing the trend, cyber risk (though minimal in the premium share of short-tail lines) saw over a 47% increase in premium written compared to the prior year. Based on the current climate, the BMA expects to see this upward trend continue, as captives are increasingly being considered for solutions in this space amid the hardening market, resulting in significant rate increases being experienced during renewals.

Lines of Business | Long-Tail Lines

In 2021, 35% of all business was in long-tail lines, identical to the share in 2020 and 42% in 2019.

The primary long-tail lines for 2021 were:

- General liability – public, products, umbrella and product recall (26%)
- Workers' compensation and employers' liability (24%)
- Professional Liability – professional indemnity, Directors and Officers (D&O), bankers blanket and Errors and Omissions (E&O) (22%)
- Accident and Health, Travel, Personal Accident (13%)

While medical malpractice remains a minor line of business in the overall captive market, we note a nearly 31% increase in premiums written over the prior year.

Table 6 – Long-Tail Lines of Business

Line of Business	2021	2020	2019
General liability – public, products, umbrella, product recall	26%	24%	21%
Workers' compensation/employers' liability	24%	26%	23%
Professional liability – professional indemnity, D&O, bankers blanket, E&O	22%	21%	18%
Accident and health, travel, personal accident	13%	13%	11%
Motor – APD and liability	9%	10%	18%
Medical malpractice	3%	2%	6%
Credit/surety	2%	3%	2%
Crime and fidelity	1%	1%	1%
Finite reinsurance	<1%	<1%	<1%
Incidental long-term business (not to be included if a composite licence)	<1%	<1%	<1%
Political risks	<1%	<1%	<1%
Total casualty premium	100%	100%	100%

Percentages may not total 100% due to rounding.

Lines of Business | Long-Term Lines

In introducing the long-term data to the Captive Report, we provide below a breakdown of the long-term captive lines of business. Of note, we see renewed growth in the deferred annuities line and new market share in the riders and critical illness lines.

Table 7 – Long-Term Lines of Business

Line of Business	2021	2020	2019
Group life	35%	51%	52%
Group disability	33%	32%	42%
Deferred annuities	15%	-5%	-16%
Riders	8%	0%	0%
Group health	4%	6%	12%
Mortality	4%	16%	10%
Critical illness	1%	0%	0%
Total long-term premium	100%	100%	100%

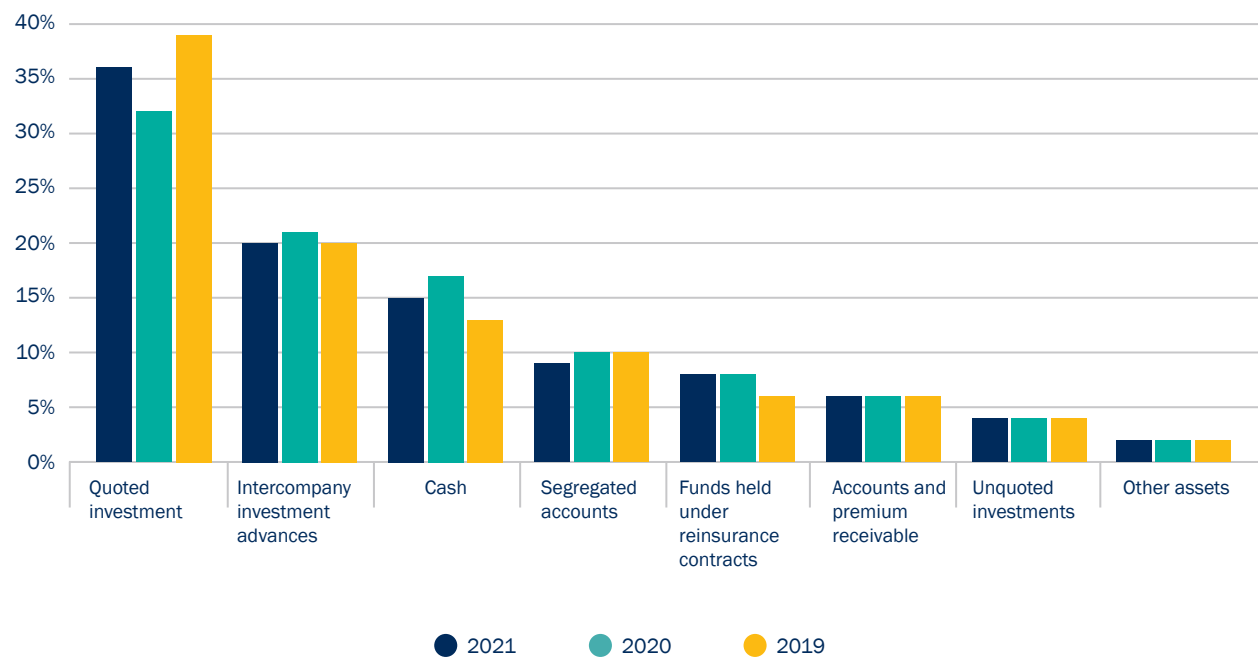
Percentages may not total 100% due to rounding.

Assets | Composition

The quality and strength of the Bermuda captives' assets allocation remain evident, with the majority held as quoted investments, inter-company investment advances and cash – accounting collectively for approximately 71% of the assets held.

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

Chart 3 – Asset Composition (year-on-year)



Also remaining consistent with prior years, Bermuda captives' investments are primarily in investment-grade securities, as highlighted below in Table 8, noting that 65% of the captive market's quoted investments were held in bonds.

Table 8 – Quoted Investment Composition (%)

Investment Type	2021	2020	2019
Bonds	65%	66%	75%
Equities	27%	24%	15%
Other	8%	10%	10%
Total	100%	100%	100%

Almost 82% of captives' quoted and unquoted bonds and debentures are rated A or better by A.M. Best (or equivalent), as shown below in Table 9.

Table 9 – Investments by Rating

	2021	2020	2019
Rating AAA	31%	30%	30%
Rating AA	33%	35%	35%
Rating A	18%	16%	16%
Rating BBB	9%	9%	8%
Rating BB	3%	2%	2%
Rating B	1%	1%	2%
Rating Below CCC	5%	6%	7%
Total	100%	100%	100%

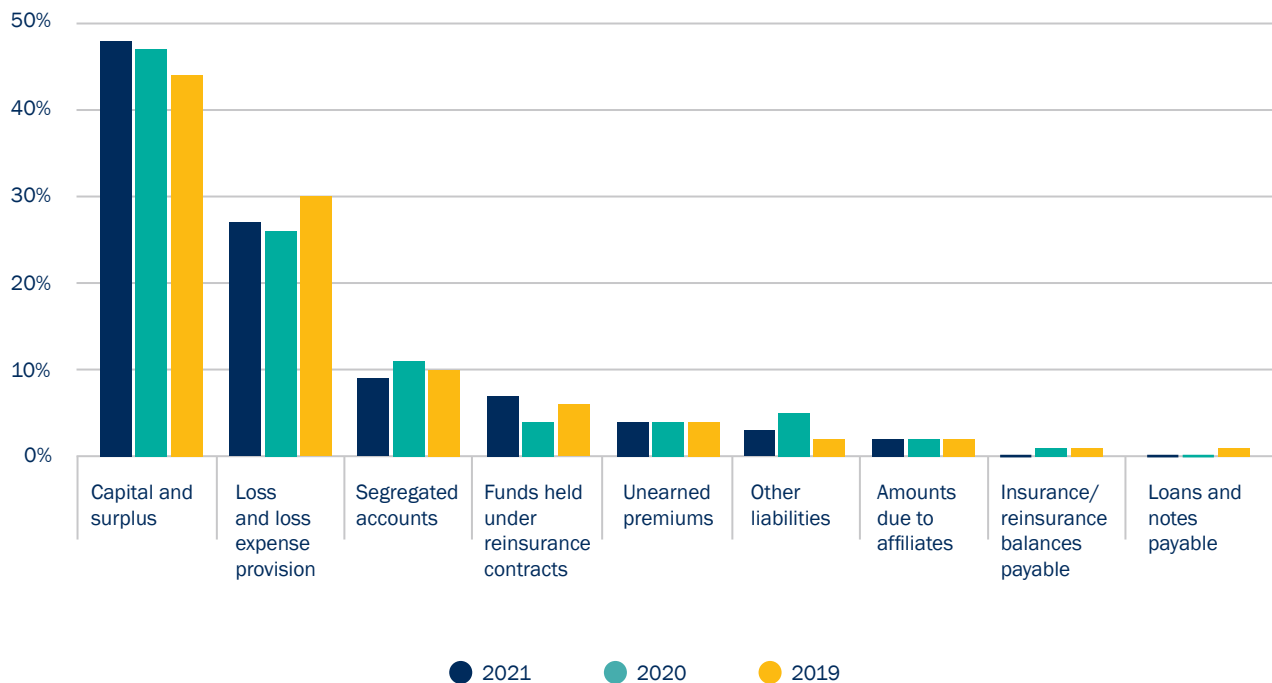
Percentages may not total 100% due to rounding.

Liabilities and Capital and Surplus

The Bermuda captive market remains in a strong position to make claims payments in the event of losses. The Authority noted loss and loss expense provisions with unearned premiums totalling \$43 billion (30% of all liabilities), capital and surplus of over \$69 billion and minimal balances due (5% of liabilities).

The full liability composition for the market is shown in Chart 4 below.

Chart 4 – Liability and Capital and Surplus Composition (Year-on-Year)



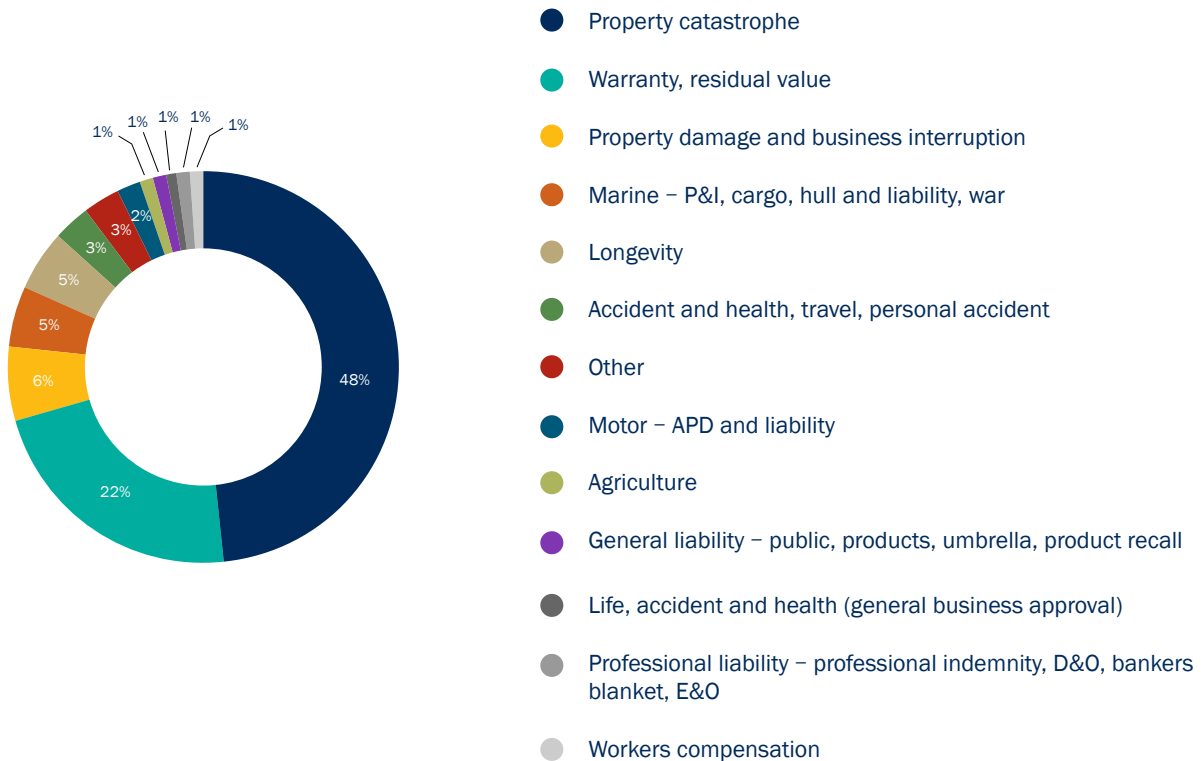
Segregated Accounts

Out of the companies registered in the Bermuda Captive Market, 16% operate as Segregated Accounts Companies (SAC) or Incorporated Segregated Accounts Companies (ISAC). In 2021, the total segregated accounts and incorporated segregated accounts in our registered SAC and ISAC were in excess of 1,600. Although SACs are spread across all captive classes, they are predominately registered in Class 3.

SAC and ISAC Premium Details

SAC and ISAC premiums account for approximately 43% of the total captive premium. Of this, 87% can be attributed to business written by the Class 3 companies. The largest lines of business written within the SACs include property catastrophe at 48% and warranty residual value at 22%. Of the total premium, approximately 89% is written as reinsurance and 11% is written directly.

Chart 5 – SAC Premium by LOB

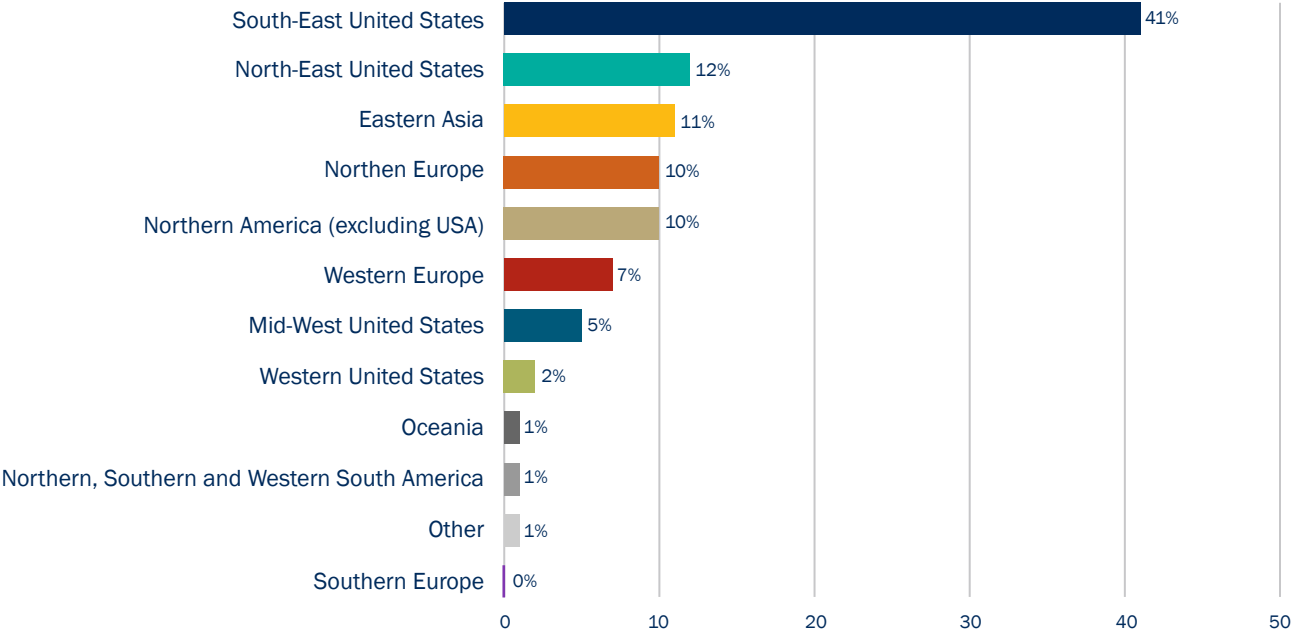




SAC assets remain strong, with 84% held as cash or quoted investments. SAC liabilities include 45% as loss reserves.

In the geographical distribution of premiums written, the South-East United States accounts for 41%, the North-East United States accounts for 12% and Eastern Asia for 11%.

Chart 6 – SAC Premium by Jurisdiction



Percentages may not total 100% due to rounding.

Alternative Capital

In 2017, the BMA introduced the Alternative Capital Schedule to facilitate the collection of key data, such as the insurer structure and summary of contract details. From this report, the Authority can ascertain that close to 2% (2020 - 2%) of captives are utilising alternative capital structures to manage loss exposures in their business operations. Nearly half of these structures covered risk in the USA (2020 - 47%). Captives utilised alternative capital structures primarily to cover exposure related to property and casualty catastrophes – as seen in the table below.

Table 10 – Alternative Capital Structures Lines of Business

Alternative Capital Line of Business	2021
Property and casualty catastrophe	95%
Agriculture	4%
Property damage and business interruption	<1%
Credit/surety	<1%
General liability - public, products, umbrella, product recall	<1%
Terrorism	<1%
Total	100%

Percentages may not total 100% due to rounding.

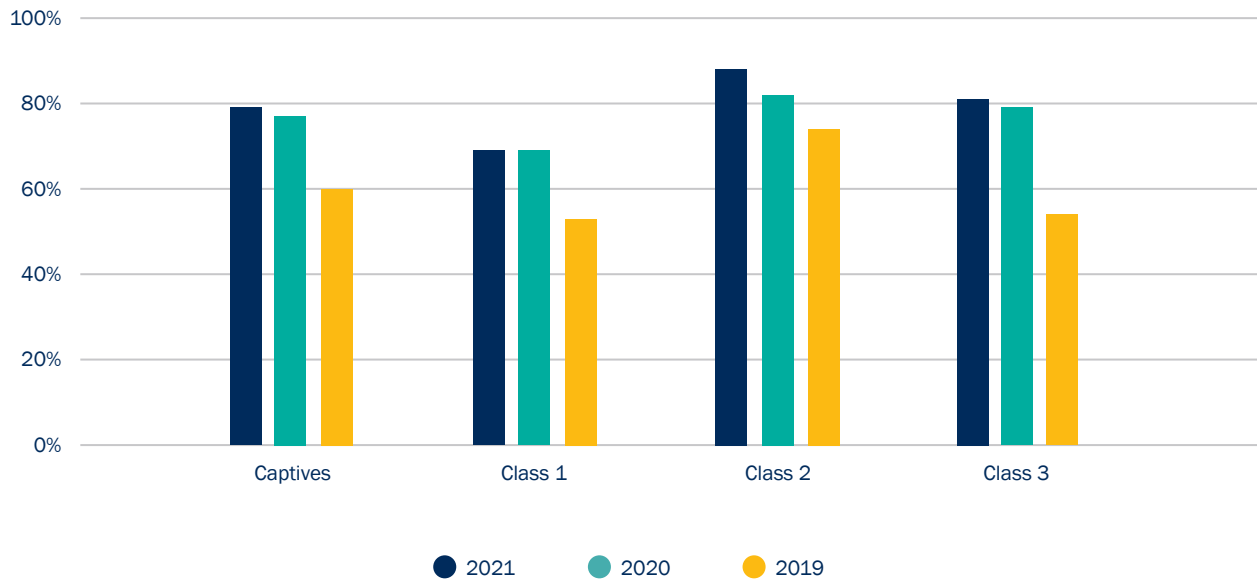


Profitability Ratios

A review of the profitability ratios reveals that the Bermuda captive market was profitable in 2021, collectively and at each class level, as shown in Chart 7 below.

The average combined ratio for Bermuda captives has fluctuated over the past three years (2021 – 79%; 2020 – 77%; 2019 – 60%), driven by the fluctuation in the loss ratios. In addition, the average loss ratio for Bermuda Captives has fluctuated over the same period (2021 – 55%; 2020 – 53%; 2019 – 48%).

Chart 7 – Combined Ratios



Annex 1

Balance sheet positions (2021)

	All categories	Class 1	Class 2	Class 3	Class A	Class B
Quoted investments	34%	19%	49%	21%	73%	0%
Bonds	22%	16%	30%	17%	14%	0%
Equity	9%	3%	13%	4%	59%	0%
Other	3%	0%	6%	1%	0%	0%
Intercompany investment/advances	21%	59%	24%	8%	10%	6%
Cash	16%	17%	11%	20%	10%	70%
Accounts premium receivable	6%	3%	5%	8%	3%	15%
Unquoted investments	4%	0%	7%	3%	0%	0%
Other assets	19%	1%	4%	40%	4%	9%
Total Assets	100%	100%	100%	100%	100%	100%
Capital and surplus	48%	77%	57%	32%	45%	31%
Loss and loss expense provision	26%	17%	34%	19%	51%	59%
Unearned premiums	4%	3%	3%	5%	0%	0%
Loans and notes payable	0%	0%	0%	1%	0%	0%
Insurance/reinsurance balances payable	2%	1%	2%	3%	0%	7%
Amounts due to affiliates	1%	1%	0%	1%	0%	0%
Other liabilities	19%	1%	4%	40%	5%	2%
Total	100%	100%	100%	100%	100%	100%

Percentages may not total 100% due to rounding.

Annex 2

Gross written premium by short-tail business lines (2021)

	All categories	Class 1	Class 2	Class 3
Property catastrophe	42%	37%	6%	61%
Warranty, residual value	23%	0%	26%	22%
Marine – P&I, cargo, hull and liability, war	12%	8%	35%	1%
Property damage and business interruption	12%	46%	16%	8%
Energy – onshore and offshore	5%	3%	12%	1%
Agriculture	2%	0%	1%	3%
Aviation – hull, liability and war	2%	1%	2%	2%
Cyber risk	1%	1%	2%	1%
Property retrocession	1%	0%	0%	1%
Construction	<1%	4%	0%	0%

Annex 3

Gross written premiums by long-tail business lines (2021)

	All Categories	Class 1	Class 2	Class 3
General liability – public, products, umbrella, product recall	26%	38%	9%	43%
Workers' compensation/employers' liability	24%	16%	31%	18%
Professional liability – professional indemnity, D&O, bankers blanket, E&O	22%	28%	30%	7%
Accident and health, travel, personal accident	13%	8%	13%	15%
Motor – APD and liability	9%	3%	10%	11%
Medical malpractice	3%	1%	4%	2%
Credit/surety	2%	1%	1%	4%
Crime and fidelity	1%	4%	1%	0%
Political risks	<1%	1%	0%	0%

Percentages may not total 100% due to rounding.

Annex 4

Gross written premiums by long-tail business lines (2021)

	All Categories	Class A	Class B
Group life	35%	0%	43%
Group disability	33%	0%	40%
Deferred annuities	15%	82%	0%
Riders	8%	0%	10%
Group health	4%	0%	5%
Mortality	4%	18%	1%
Critical illness	1%	0%	1%

Percentages may not total 100% due to rounding.



If you would like to find out more
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