BMA Captive Report 2023

The 2023 Captive Report is based on 2022 year-end data

Contents

Overview

Bermuda's captive insurance supervisory regime offers an innovative, stable platform to diverse industries and jurisdictions around the world. Participants in this market share a common goal of utilising viable captive insurance solutions to address coverage gaps and to enhance the organisation’s risk management strategies.

One of the main reasons companies are attracted to Bermuda is the island’s proven track record in the captive market coupled with the Bermuda Monetary Authority’s (Authority or BMA) pragmatic, proportional supervisory approach. The BMA’s framework aims to offer tailored solutions and engagement with captives to gain a deep understanding of their business models, challenges and risks.

The development of the Bermuda captive market has been remarkable, with notable returns seen among companies that are pursuing new registrations, expanding the use of their existing captives and/or interested in studying the Bermuda captive supervisory regime.

Despite continued market evolution, the BMA firmly adheres to a set of core principles that provide stability to the market and help facilitate the long-term success of its participants. One core principle is the steadfast commitment to a regime that is bifurcated between commercial and captive supervision. This helps to ensure that captive requirements remain robust but proportionate to the risks posed by the market.

The history and resilience of Bermuda's captive market speaks for itself. Innovation has always been at the forefront and captives are widely recognised as invaluable risk management tools by parent companies and organisations. This has continued to drive the market forward. Over the years, there have been many shifts in strategy for the market's participants; however, the captive market has shown a long-term commitment to operating in Bermuda due to the many associated benefits. In fact, many captives have been registered in the Bermuda market for decades and continue to thrive.

In pursuit of enhanced efficiencies, the Authority continues to employ automation, streamlined processes, and a risk-based supervisory approach to overseeing the captive market. Bermuda captives are risk-rated based on various factors, including their nature, scale and complexity. Using an ongoing and strategic approach, the Authority aims to ensure that any proposed structures are suitably capitalised, appropriately governed and licensed accordingly.

The BMA continues to see significant interest in companies wanting to establish new captives and/or increase their usage of existing captives. Following the formation of 18 new captives in Bermuda in 2022, 2023 has since been characterised by healthy registration activity, with 16 new captives registered. Similarly, 2024 was also active, with 17 new captive companies registering in Bermuda.

Indeed, the future looks bright with many dynamic changes in the strategies used by Bermuda captives. The prevailing approach is to address evolving risks using a proportional method. Major themes that have emerged are sustainability, enhancing efficiencies and minimising loss experiences.

While rates have levelled out for some captives, others continue to report significant changes. One especially active area in this respect has been in property programmes, which have had continued capacity concerns that have translated into greater retention. Exclusions in the parent companies' traditional insurance policies have also required adjustments to their captives' policies to fill the gaps. Moving forward, the BMA will continue to work diligently to gain an in-depth understanding of the proposed business and the capital available to facilitate efficient responses.

The Authority has engaged in many discussions noting the market’s sophisticated strategies to amend approaches that are both beneficial to the environment and the immediate communities that these companies operate within. Both captives and parent companies are using many exciting new, innovative tools to achieve tangible results and enhance the captive's risk management approach. These include tools that provide advanced warning and tracking systems, digitised processes, enhanced research and secure ground-breaking safety equipment. Captives increasingly gain greater access to more sophisticated analysis and better underwriting and reporting tools through enhanced broker and reinsurer support systems. This fosters stronger risk management solutions, decision making and analysis of bespoke solutions relevant to the captive market.

Artificial Intelligence

Artificial Intelligence (AI), in the form of AI-generated claims and distribution systems, has benefitted the industry directly by reducing losses due to fraud. AI has also led to improvements in the use of data, particularly readily available information such as metadata. With the Bermuda captive market actively utilising a range of available technological advancements, the possibilities are endless.

The adoption of AI systems is accelerating globally, and these developments offer substantial commercial benefits across the value chain. However, these advancements also have notable risks that could detrimentally impact organisations and insurers' financial stability and soundness (including captives).

The Authority emphasises the importance of continuing education for board members and senior officers to support the establishment of robust risk and governance frameworks that will help ensure responsible, sound outcomes. It remains the responsibility of boards to understand and manage both of these systems and their outcomes.

Segregated Account Companies

The BMA has determined that greater clarity for the Segregated Account Companies (SAC) sector is necessary as it has become increasingly complex, well beyond its original limited-purpose definition. Consequently, the Authority issued a Consultation Paper (CP) for SAC insurers in 2024 titled *General Business Insurers with Segregated Accounts and Separate Accounts*. This paper clarifies the practices that have been in place in recent years at the BMA. Many within the industry will be familiar with the proposed changes in requirements highlighted in the CP, such as implementing annual approvals rather than evergreen approvals and material change expectations.

The most notable shift in the guidance is an expansion of auditor requirements with the aim of enhanced oversight of the data submitted in the SAC schedule. Through the pre-consultation and public consultation, which closed in September 2024, the Authority has taken into account various feedback points received from stakeholders. The BMA is aware of the many implications of this change and continues to engage with audit firms and the market as a whole. The aim is to determine a prudent but pragmatic approach to achieve the goal of ensuring better transparency on the business written through the cells.

The effective date for the guidance is 31 December 2025 year-end onwards. The Authority aims to minimise disruptions in the market but is focused on maintaining the regime's integrity and continues to make enhancements that contribute to this goal.

The Authority does not doubt that Bermuda will remain a leading captive jurisdiction for decades to come. The Bermuda captive market is one where we continue to see the depth of exposure and address needs across industries to ensure viable risk solutions for parent entities. The Authority is focused on a continued transparent collaborative approach to ensure the continued success of the Bermuda captive market.

Aggregating the electronic reporting data submitted by the industry for 2022 allows the BMA to identify trends and conduct an in-depth review of the Bermuda captive market. This data analysis includes a granular, company-level review as well as a holistic overview of the market activity. As a result, this report highlights the market results from the 2022 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 based on four key approaches:

- Business written by geographical region, lines of business and the industry of the parent company
- Utilisation of Bermuda captives by industry, their premium shares and the industry profiles within 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
- 70% of the risk assumed by the market originates from North America and Bermuda
- 15% of insurers are in run-off
- 15% of insurers have segregated accounts

[1] Defined on page 11

Geography of Risk Assumption

The Bermuda captive market continued its substantial presence in 2022, writing over $31 billion in gross premium written. As in prior years, most of the risk assumed by Bermuda captives originated in North America and Bermuda (70%), followed by Europe (13%).

Table 1 — Geography of Risk Assumption (%)

Regions	2022	2021	2020
North America and Bermuda	70%	70%	71%
Europe	13%	13%	12%
The rest of Asia	5%	4%	4%
Japan	4%	5%	6%
Africa and the Middle East	3%	3%	3%
Central and South America, Caribbean	3%	3%	3%
Australia and New Zealand	2%	2%	1%

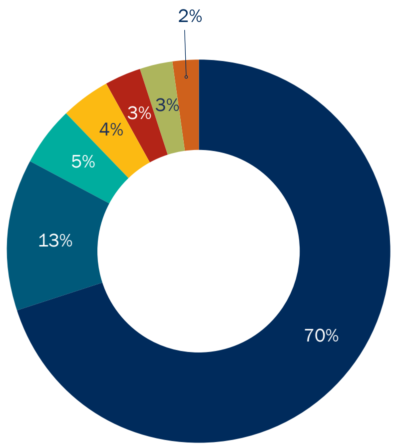


Chart 1 – Premiums by Location

- — North America
- — Europe
- — The rest of Asia
- — Japan
- — 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's diverse market continues to expand, with organisations across industries seeking a captive solution in the Bermuda captive market.

The demographics of leading captive parent industries have remained constant over the years. Financial institutions are leading with 14% of the market, followed by automotive, manufacturing and retail sectors with 12% and shipping, transport and storage sectors with 12%.

Table 2 — Total Industry of Parent Company (%)

Industry	2022	2021	2020
Financial institutions	14%	15%	14%
Automotive, manufacturing and retail	12%	12%	13%
Shipping, transport and storage	12%	12%	12%
Energy, power and utilities	9%	9%	8%
Healthcare	9%	9%	9%
Professional services	9%	9%	10%
Administrative and support services	6%	6%	6%
Wholesale and retail	6%	6%	6%
Construction	5%	5%	5%
Chemical and pharmaceutical	4%	4%	4%
Agriculture, mining, forestry and fishing	3%	3%	3%
Technology and telecoms	3%	3%	3%
Charities and non-profit organisations	2%	2%	2%
Hospitality	2%	2%	2%
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%	<1%
Total	**100%**	**100%**	**100%**

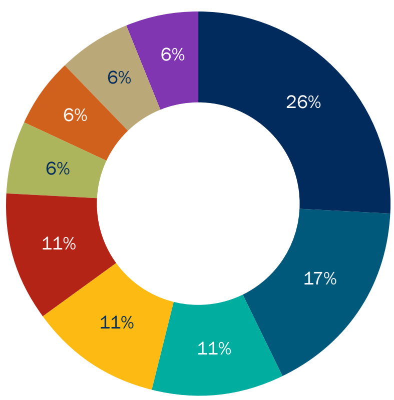
Percentages may not total 100% due to rounding.

Industry of Parent for 2022 New Formations

In 2022, 18 new captives were formed, with the leading industry sector of the parent company being energy, power and utilities (26%), followed by healthcare (17%), then automotive, manufacturing and retail, construction and shipping, transport and storage being 11% individually. Of the new formations, 14 were classified as 'pure captives', writing only the risks of the parent company and/or affiliates; three were classified as insurer/reinsurer and one was classified as an agency captive.

By comparison, 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'. The new classes of business written were mainly conventional captive classes such as property, liability and auto.

Chart 2 — New Formations by Industry of Parent Company



- — Energy, power and utilities
- — Healthcare
- — Automotive, manufacturing and retail
- — Construction
- — Shipping, transport and storage
- — Administrative and support services
- — Chemical and pharmaceutical
- — Financial institution
- — Media and gaming

Percentages may not total 100% due to rounding.

Industry Utilisation | Premium Share

In 2022, the leading industries reflected no change from the prior year, with financial institutions leading with a 27% share.

Table 3 – Total Premiums by Industry (% share)

Industry	2022	2021
Financial institutions	27%	24%
Energy, power and utilities	13%	13%
Shipping, transport and storage	13%	12%
Administrative and support services	11%	12%
Professional services	9%	8%
Technology and telecoms	8%	10%
Wholesale and retail	5%	4%
Automotive, manufacturing and retail	4%	5%
Healthcare	3%	4%
Agriculture, mining, forestry and fishing	2%	3%
Construction	2%	2%
Science and research	2%	1%
Chemical and pharmaceutical	1%	1%
Hospitality	1%	<1%
Charities and non-profit organisations	<1%	<1%
Education	<1%	<1%
Government or public sector	<1%	<1%
Leisure	<1%	<1%
Media and gaming	<1%	<1%
Total	**100%**	**100%**

Percentages may not total 100% due to rounding.

Captive Structures

Across the Bermuda Captive market structures, the business written is comprised of 60% related business, 34% unrelated business and 6% connected business. The overall distribution of captive structures remain relatively unchanged, with pure captives representing 65% of the total.

Table 4 — Types of Company Structures

Type	2022	2021	2020
Pure captive	65%	65%	65%
Insurer/reinsurer	17%	17%	17%
Rent-a-captive	8%	7%	8%
Group captive	6%	6%	7%
Association captive	3%	3%	3%
Agency captive	1%	1%	1%
Total	**100%**	**100%**	**100%**

Percentages may not total 100% due to rounding.

Definition of captive structures:

- **Pure captive:** a company writing only the risks of its parent and/or affiliates
- **Rent-a-captive:** a company where the captive insures the policyholder without owning it, or at least without voting control. The captive facility 'rents' its capital, surplus and licence to the policyholders and usually provides administrative services, and 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, that writes only the risks of its owners and/or affiliates
- **Association captive:**a company that insures the 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

General Lines of Business | Property/Short-tail Lines

The provision of short-tail coverages represented 66% of all business written by Bermuda captives in 2022 and 68% in 2021.

The main lines in 2022 included:

- Property and casualty catastrophe (45%)
- Warranty and residual value (18%)
- Property damage and business interruption (15%)
- Marine — protection and indemnity (P&I), cargo, hull and liability and war (13%)

Although immaterial to the overall market, the greatest year-on-year increase reported was in the 'environmental risk' line of business, which saw approximately an 88% increase in premium written. Additionally, property damage and business interruption continue to see steady growth year-on-year.

We expect commercial insurer price increases will accelerate the start of new captive programmes, affording the parent organisations flexibility on price and coverage.

Table 5 — Short-tail Lines of Business

Line of Business (LOB)	**2022**	**2021**	**2020**
Property and casualty catastrophe	45%	49%	44%
Warranty and residual value	18%	19%	22%
Property damage and business interruption	15%	11%	11%
Marine — P&I, cargo, hull and liability, war	13%	10%	12%
Energy — onshore and offshore	3%	4%	5%
Aviation — hull, liability and war	2%	2%	3%
Property retrocession	2%	2%	1%
Agriculture	1%	2%	1%
Cyber risk	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 2022, casualty long-tail coverages accounted for 34% of all business written, a slight increase over the 32% written in 2021.

The primary long-tail lines for 2022 were:

- General liability – public, products, umbrella and product recall (30%)
- Workers' compensation and employers' liability (23%)
- Professional Liability – professional indemnity, Directors and Officers (D&O), bankers blanket and Errors and Omissions (E&O) (18%)
- Accident and health, travel, personal accident (13%)

Table 6 — Long-tail Lines of Business

Line of Business	2022	2021	2020
General liability — public, products, umbrella, product recall	30%	30%	24%
Workers' compensation/employers' liability	23%	22%	26%
Professional liability — professional indemnity, D&O, bankers blanket, E&O	18%	20%	21%
Accident and health, travel, personal accident	13%	12%	13%
Motor — APD and liability	10%	11%	10%
Credit/surety	3%	2%	3%
Medical malpractice	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

The BMA's multi-class license system is designed to group companies according to their structure. In this regard, the Authority segregates its long-term companies into captive and commercial, with Classes A and B encompassing the first-party risks of the owners.

The Authority has observed renewed growth in the long-term captive sector with interest and continued development of long-term life and disability programmes for a number of new captives and an additional line of business in existing captives under a Class A License for employee benefits programmes.

Among Class A and B Companies, Longevity is noted as the leading line of business, with 66% of the market share. The table below outlines the related party lines of business underwritten into the two captive long-term classes.

Table 7 — Long-term Lines of Business

Line of Business	2022	2021	2020
Longevity	66%	64%	72%
Group life	14%	12%	14%
Group disability	13%	12%	9%
Group health	4%	1%	2%
Riders	3%	3%	0%
Mortality	1%	1%	4%
Critical illness	<1%	<1%	0%
Deferred annuities	-1%	5%	-1%
Total long-term premium	**100%**	**100%**	**100%**

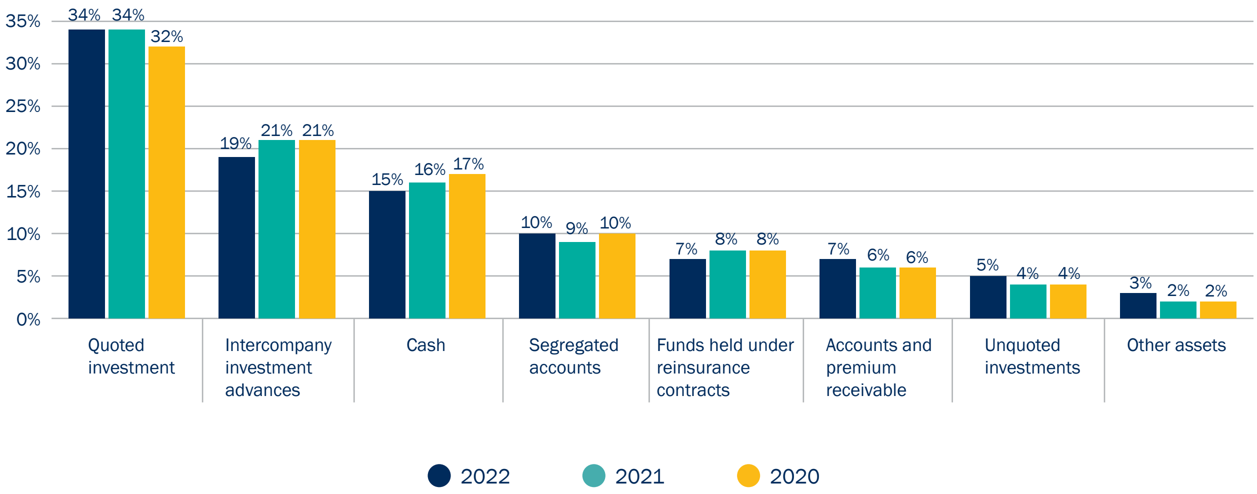
Percentages may not total 100% due to rounding.

Assets | Composition

The quality and strength of the Bermuda captives' asset allocations have remained consistent with prior years. The majority of the assets held were reported as quoted investments, inter-company investment advances and cash – accounting collectively for approximately 68% of the total assets.

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

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



Assets | Invested Assets

Bermuda captives' investments are primarily in investment-grade securities, as highlighted below in Table 8, which notes that 67% of the captive market's quoted investments were held in bonds.

Table 8 – Quoted Investment Composition (%)

Investment Type	2022	2021	2020
Bonds	67%	65%	66%
Equities	27%	27%	24%
Other	6%	8%	10%
Total	**100%**	**100%**	**100%**

Percentages may not total 100% due to rounding.

Almost 86% 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

	2022	2021	2020
Rating AAA	37%	31%	30%
Rating AA	34%	33%	35%
Rating A	15%	18%	16%
Rating BBB	7%	9%	9%
Rating BB	2%	3%	2%
Rating B	1%	1%	1%
Rating Below CCC	4%	5%	6%
Total	**100%**	**100%**	**100%**

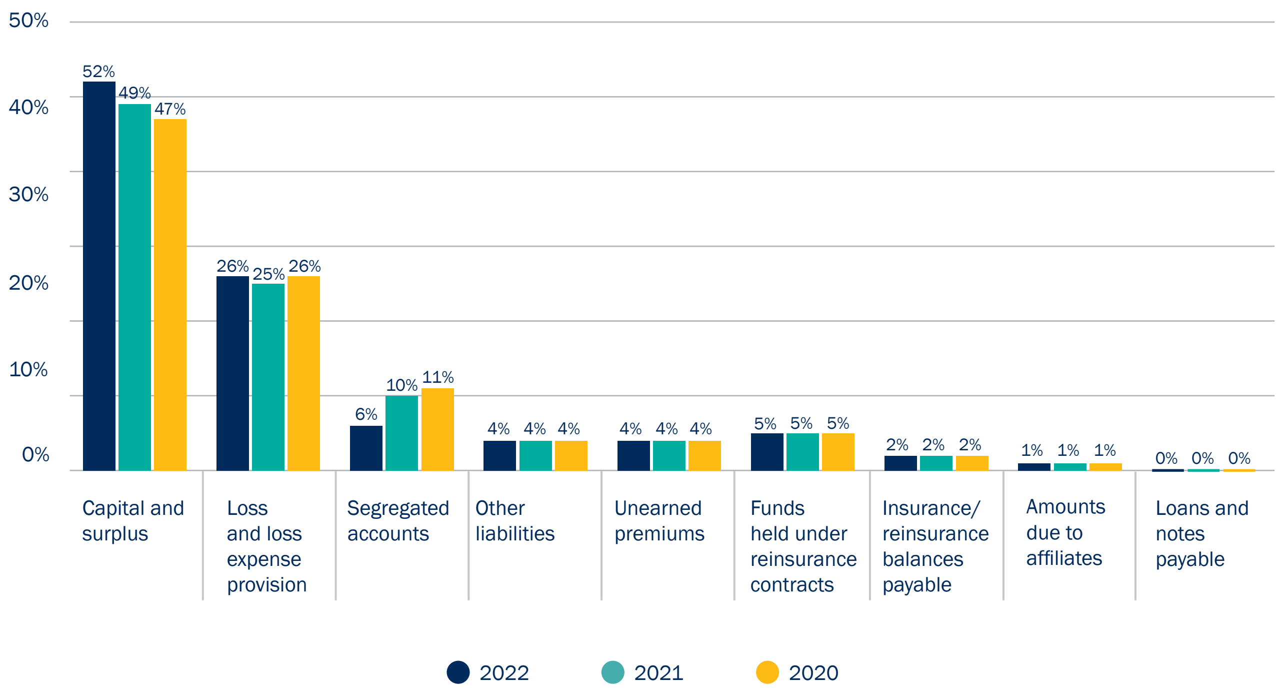
Percentages may not total 100% due to rounding.

Liabilities and Capital and Surplus

Bermuda captives collectively have positioned themselves well to ensure their ability to make claim payments as losses occur. The Authority noted loss and loss expense provisions combined with unearned premiums totalling $44 billion (30% of all liabilities), capital and surplus of over $74 billion and minimal balances due (4% 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)



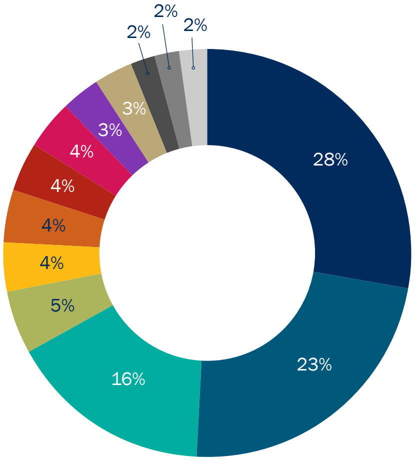
Segregated Accounts

In 2022, 15% of the companies registered in the Bermuda captive market operated as Segregated Accounts Companies (SAC) or Incorporated Segregated Accounts Companies (ISAC). The data shows the total segregated accounts and incorporated segregated accounts were in excess of 1,800, a 12.5% increase over the prior year. 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 37% of the total captive premium. Of this, 89% can be attributed to business written by the Class 3 companies. The largest lines of business written within the SACs include property catastrophe at 28% and property damage and business interruption at 23%. Of the total premium, approximately 96% is written as reinsurance and 4% is written directly.

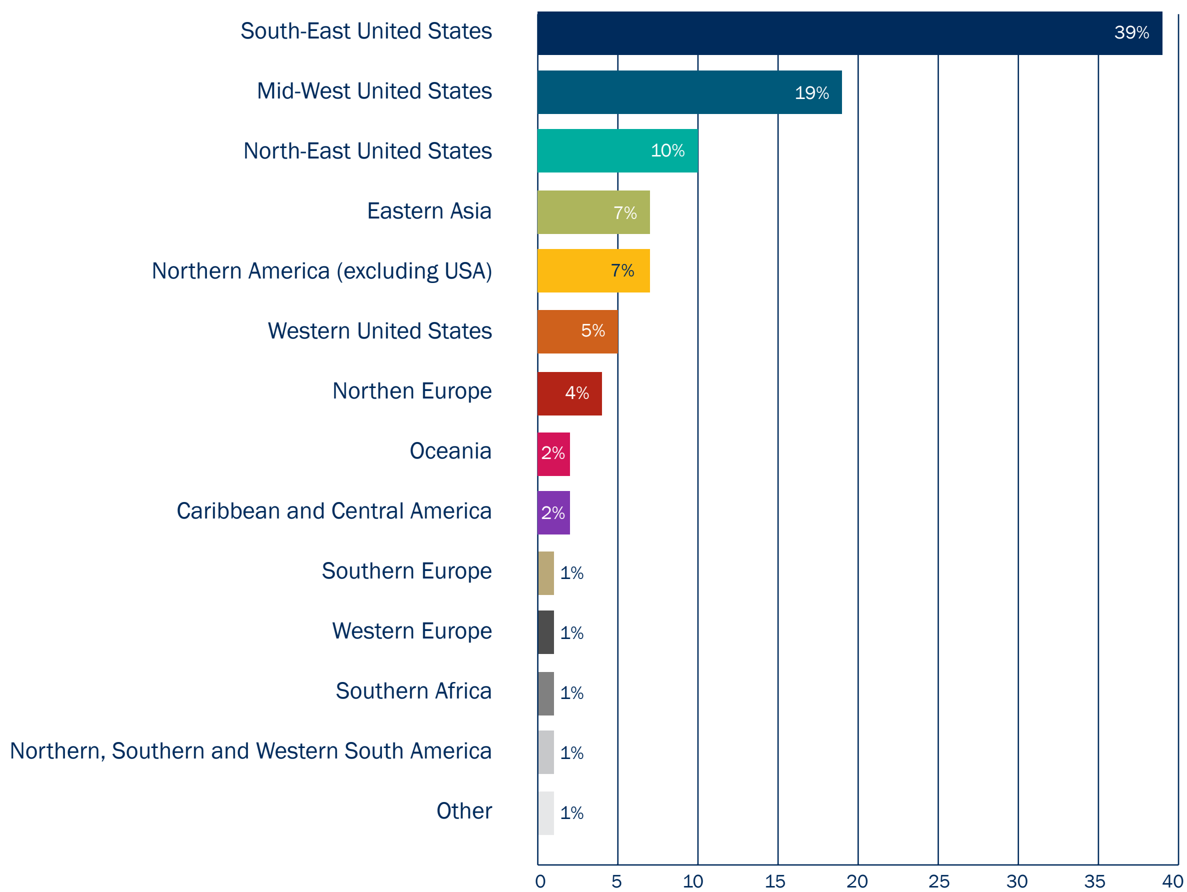
Chart 5 – SAC Premium by LOB



SAC assets remain strong, with 74% 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 39%, the Mid-West United States accounts for 19% and the North-East United States accounts for 10%.

Chart 6 — SAC Premium by Jurisdiction



Percentages may not total 100% due to rounding.

Alternative Capital

The Alternative Capital (AC) Schedule facilitates the collection of key data, such as the insurer structure, alternative capital type, and contract details summary. From this report, the Authority can ascertain that close to 2% of captives utilise alternative capital structures to manage loss exposures in their business operations. Nearly half of these structures covered risk in the USA. Captives utilised alternative capital structures primarily to cover exposure related to property and casualty catastrophes, reflecting this approach in the AC commercial insurance market at a similar participation level — as seen in the table below.

Table 10 – Alternative Capital Structures Lines of Business

AC Line of Business	**2022**
Property and casualty catastrophe	96%
Agriculture	4%
Total	**100%**

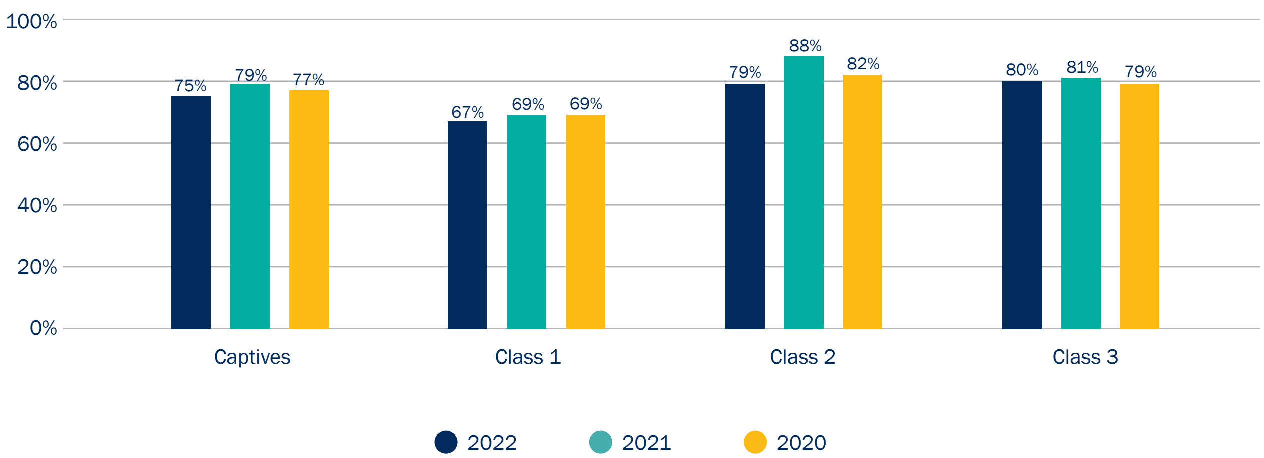
Percentages may not total 100% due to rounding.

Profitability Ratios

A review of the profitability ratios reveals that the Bermuda captive market was profitable in 2022, both 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 (2022 — 75%; 2021 — 79%; 2020 — 77%), driven by the fluctuation in the loss ratios. In addition, the average loss ratio for Bermuda captives has fluctuated slightly over the same period (2022 — 53%; 2021 — 55%; 2020 — 53%).

Chart 7 — Combined Ratios



Annex 1

Balance sheet positions (2022)

	All categories	Class 1	Class 2	Class 3	Class A	Class B
Quoted investments	34%	11%	50%	24%	72%	5%
Bonds	23%	9%	31%	21%	18%	5%
Equity	9%	2%	15%	3%	54%	0%
Other	2%	0%	5%	1%	0%	0%
Intercompany investment/advances	19%	65%	19%	8%	13%	5%
Cash	15%	19%	11%	17%	8%	68%
Accounts premium receivable	7%	4%	5%	9%	3%	12%
Unquoted investments	5%	1%	10%	2%	0%	0%
Other assets	20%	1%	5%	40%	4%	9%
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Capital and surplus	52%	78%	55%	42%	53%	34%
Loss and loss expense provision	26%	16%	36%	19%	40%	60%
Unearned premiums	4%	3%	4%	5%	0%	0%
Loans and notes payable	0%	0%	0%	1%	0%	0%
Insurance/reinsurance balances payable	2%	1%	2%	3%	0%	5%
Amounts due to affiliates	1%	1%	0%	1%	0%	1%
Other liabilities	15%	1%	2%	30%	7%	1%
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 (2022)

	All categories	Class 1	Class 2	Class 3
Property catastrophe	44%	33%	5%	61%
Warranty, residual value	18%	0%	25%	17%
Property damage and business interruption	15%	50%	15%	13%
Marine — P&I, cargo, hull and liability, war	13%	7%	41%	1%
Energy — onshore and offshore	3%	3%	9%	1%
Aviation — hull, liability and war	2%	2%	2%	2%
Property retrocession	2%	0%	0%	2%
Agriculture	1%	0%	1%	1%
Cyber risk	1%	1%	1%	1%
Construction	<0%	4%	1%	0%

Percentages may not total 100% due to rounding.

Annex 3

Gross written premiums by long-tail business lines (2022)

	All Categories	Class 1	Class 2	Class 3
General liability — public, products, umbrella, product recall	30%	45%	11%	41%
Workers' compensation/employers' liability	23%	16%	34%	15%
Professional liability — professional indemnity, D&O, bankers blanket, E&O	17%	19%	27%	8%
Accident and health, travel, personal accident	13%	7%	12%	16%
Motor — APD and liability	10%	3%	9%	13%
Credit/surety	3%	1%	1%	5%
Medical malpractice	2%	1%	4%	1%
Crime and fidelity	1%	7%	1%	0%
Political risks	0%	1%	0%	0%

Percentages may not total 100% due to rounding.

Annex 4

Gross written premiums by long-tail business lines (2022)

	All Categories	Class A	Class B
Longevity	66%	97%	0%
Group life	14%	1%	42%
Group disability	13%	0%	40%
Group health	4%	3%	6%
Riders	3%	0%	10%
Mortality	1%	2%	1%
Critical illness	0%	0%	1%
Deferred annuities	-2%	-2%	0%

Percentages may not total 100% due to rounding.

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