



# Commercial Insurance in Bermuda

SEPTEMBER 2024



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# Introduction

This publication provides an overview of the commercial insurance space in Bermuda. In particular, we provide an overview of the incorporation process, expected timelines, an understanding of the benefits and the operation of commercial insurers in Bermuda.

# Benefits of operating as a Commercial Insurer in Bermuda

With a stable economy, robust regulatory framework, and tax-efficient environment, companies are increasingly looking to Bermuda when making strategic decisions.



## World-Respected Regulator

- Sophisticated insurance regulator that is very easy to work with in Bermuda
- Bermuda Monetary Authority (BMA) stays current on industry best practice
- BMA maintains a strong and cooperative working relationship with a diverse set of international regulators
- Long-term stable regulatory and political environment focused on International Business' sustainable development



## Regulatory Environment

Strong reputation as competitive and leading international financial center:

- Meets and exceeds IAIS standards
- Solvency II Equivalence on March 24, 2016
- NAIC approved as Reciprocal Jurisdiction in 2019
- Time required to receive insurance license approval is fast



## Growing Reinsurance Marketplace

- Bermuda is one of the world's largest and most sophisticated commercial insurance marketplaces with over 350 P&C and Life insurers
- Strong reputation as a competitive and leading international financial center amongst global insurance companies
- Capital providers are attracted to Bermuda because they can quickly gain access to a wealth of world class talent, including risk management, ALM, capital and liquidity management expertise



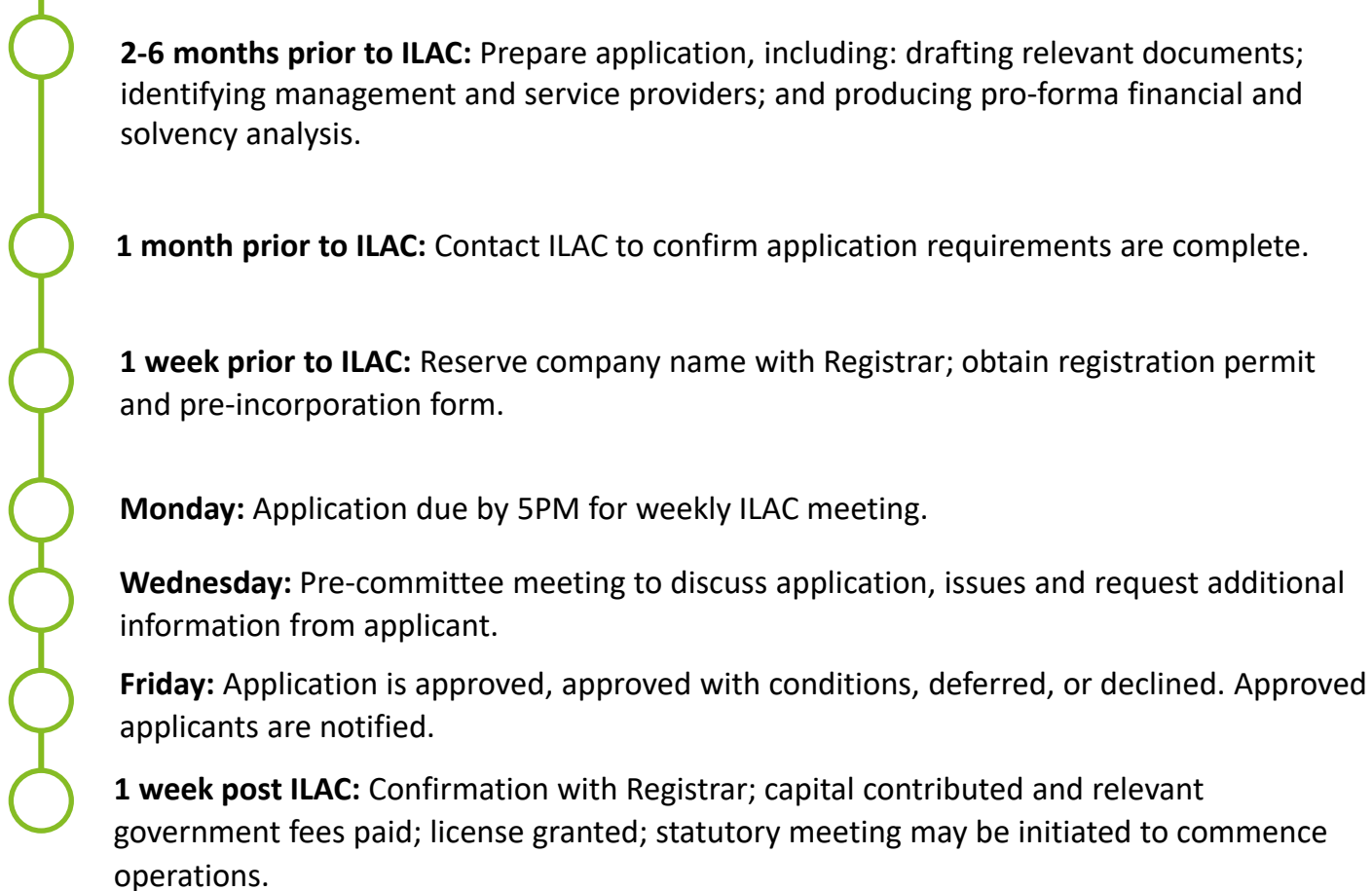
## Capital Efficiency, Tax, and Innovation

- Cedants from US, Canada, UK, EU, and Asia have been able to redeploy their capital by structuring new reinsurance treaties in Bermuda
- Competitive tax-regime can reduce investment management expenses and cost of capital
- Bermuda is at the frontier of insurtech innovation, supported by the BMA to promote and spur development of new technology

# Incorporation and Licensing Process

Formation of a commercial insurer in Bermuda is a relatively streamlined process. The Bermuda Monetary Authority (“BMA”) is responsible for licensing and supervision of insurance entities, and commercial applications are reviewed by the Insurance Licensing Advisory Committee (“ILAC”).

## Incorporation timeline



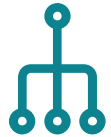
Early contact with service providers and BMA is recommended to ensure submission contents are complete and ILAC is comfortable with the proposed business operations. This is usually an iterative process and the BMA is known to be very accessible to and collaborative with new market entrants.

## ILAC Assessment

- Compliance with Insurance Act
- Viability of business plan
- Appropriate corporate governance, management team, operating model, infrastructure and outsourcing
- License class determination
- Confirmation of capital adequacy for proposed business operations

# Key Submission Milestones

ILAC will typically review the following documentation and financial analysis during their pre-review and committee meeting in order to approve and license a new insurance operation. As described, iterative communication with ILAC and your service providers is recommended to ensure that submission contents meet the required level of detail.



## Business Plan

- Overview of business
- Target lines of business and origination strategy
- Use of reinsurance
- Investment strategy
- Ownership structure, affiliates and subsidiaries (incl. intermediate and ultimate beneficial owners)
- Description of outsourced activities and professional service providers



## Legal Documents

- Memorandum of association
- Registration permit or pre-incorporation form



## Acceptance Letter

- Acceptance letters from outsourced service providers
- Letters of intent from ceding companies if available



## Financial Projections

- Prepare 5-year pro-forma of GAAP/IFRS and statutory financial statements
- Opening and 5-year solvency balance sheet
- Stress scenario results
- Capitalized plan



## Policies & Governance

- Risk appetite, limits and retentions
- Code of conduct
- Investment / underwriting guidelines
- Board organization and directorship
- Home Office requirements
- AML/ATF policies (direct business only)

# Home Office Requirements

Section 8C of the Bermuda Insurance Act was amended to require any commercial insurer to establish and maintain its head office in Bermuda (i.e., be managed and directed in Bermuda).

In determining whether a commercial insurer has complied with the head office requirements, the BMA considers the following six factors:

01

Where the underwriting, risk management and operational decision making of the insurer occurs;

04

The location where management of the insurer meets to effect policy decisions of the insurer;

02

Whether the presence of senior executives who are responsible for, and involved in, the decision making related to the insurance business of the insurer are located in Bermuda;

05

The residence of the officers, insurance managers or employees of the insurer;

03

Where meetings of the board of directors of the insurer occur;

06

The residence of one or more directors of the insurer in Bermuda.

# Determination of License Classes

The Bermuda Monetary Authority (“BMA”) recognizes that insurers having varying risk profiles arising from the nature, scale and complexity of their business.

Bermuda’s insurance regulation is divided into Commercial Insurers and Limited Purpose Insurers (“LPI” or “captives”).

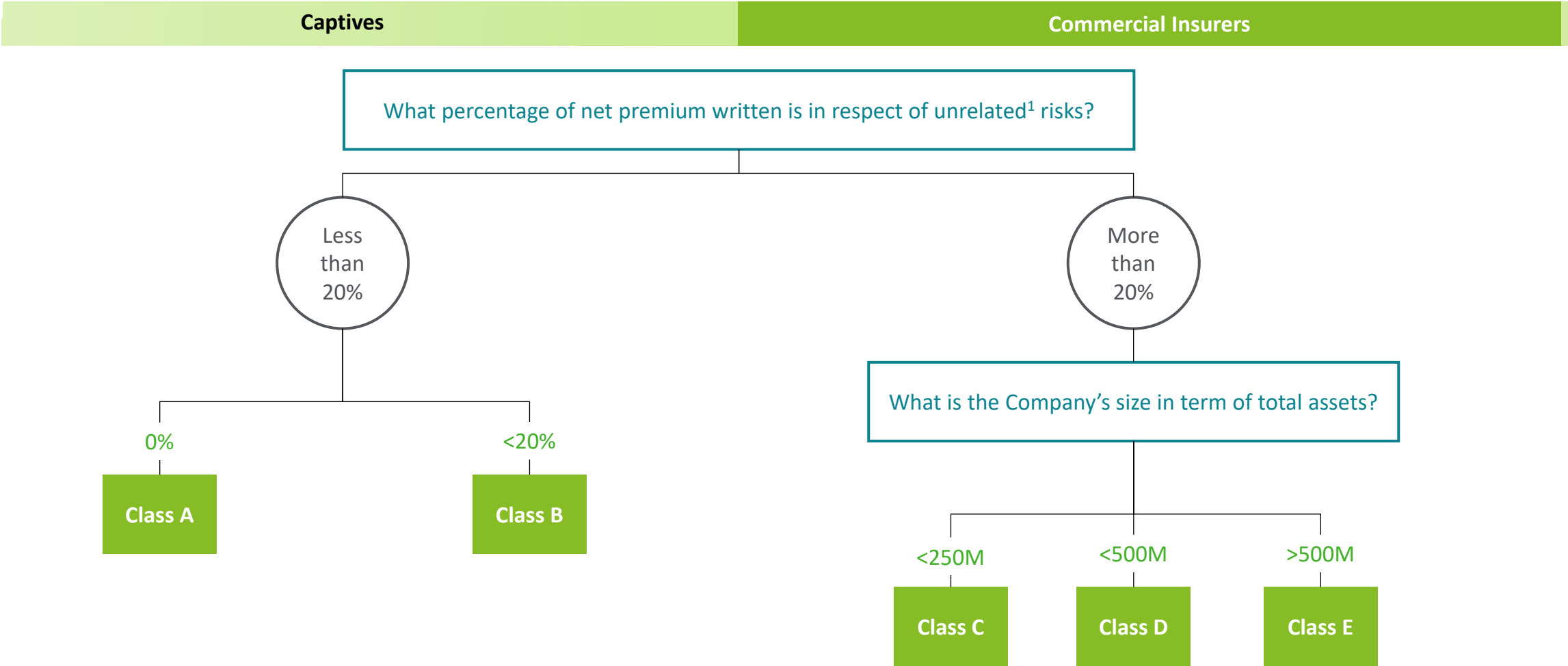
Reporting for Commercial Insurers is more onerous and they are deemed to be Solvency II equivalent. Whereas captives are not and have different capital and reporting requirements.

## **Regulations:**

- Insurance Act 1978
- Insurance Account Regulations 1980
- Insurance Return and Solvency Regulations 1980

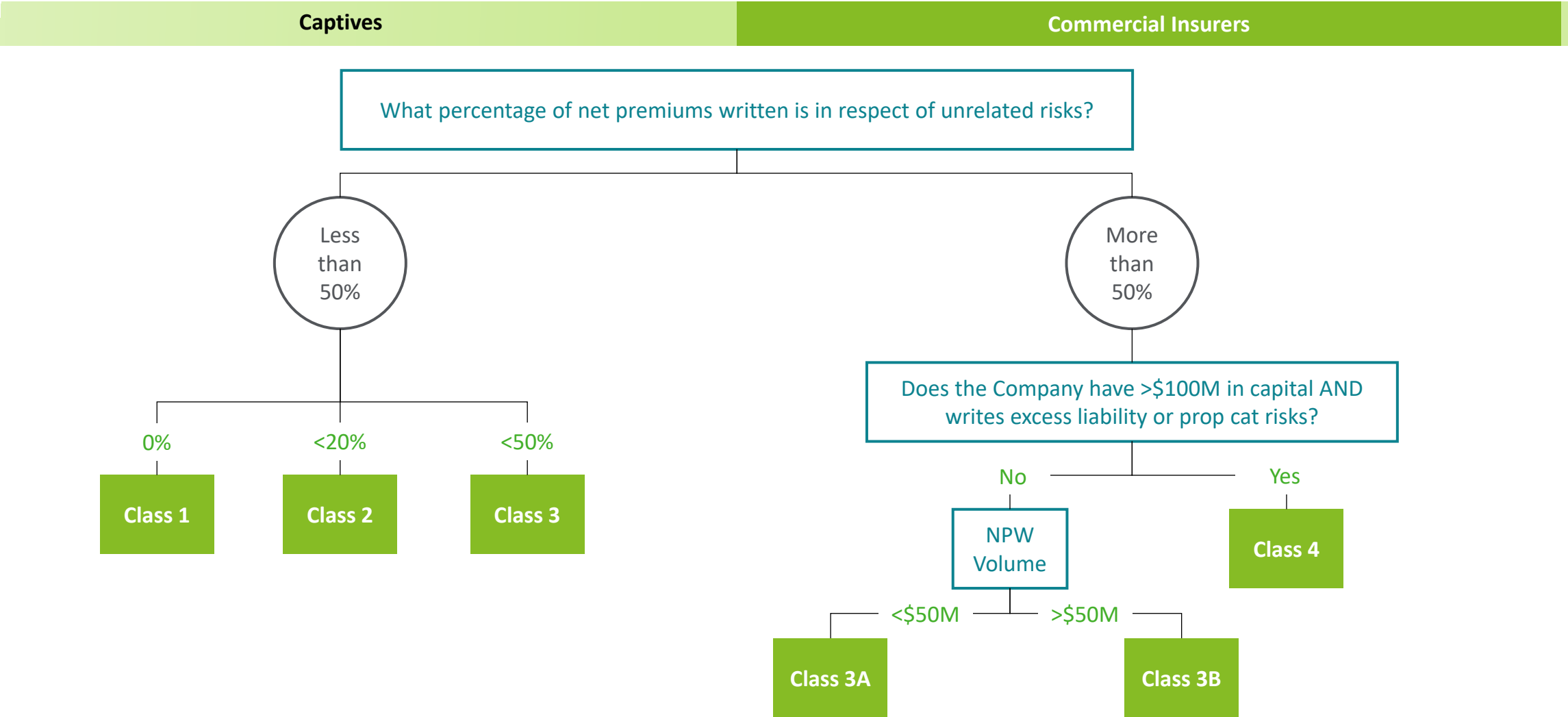


# Long-Term Insurance Licenses



<sup>1</sup>Unrelated risks above refers to risks that are not related to or arising out of the business of owners or their affiliates

# General Business Insurance Licenses



# Comparison of Commercial Insurance Classes in Bermuda

Commercial insurers include classes 3A, 3B, 4, C, D and E. This segregation facilitates proportional risk-based regulation and supervision. Classes 3A, 3B and 4 are used to write general (i.e. non-life or P&C) business and Classes C, D and E are used to write long-term (i.e. life-contingent) business.

The table below shows the general regulatory requirements associated with each class.

Class of Insurer	Class 3A	Class 3B	Class 4	Class C	Class D	Class E
Determination of class of registration	Total net premiums written (NPW) from unrelated business are less than \$50M.	Total NPW from unrelated business are \$50M or more.	Required license to underwrite direct excess liability insurance and/or property catastrophe reinsurance risk.  Minimum statutory capital and surplus of \$100M.	Total assets of less than \$250M.	Total assets of \$250M or more, but less than \$500M.	Total assets of more than \$500M.
Minimum paid up share capital	\$120,000	\$120,000	\$1,000,000	\$250,000	\$250,000	\$250,000
Actuarial Opinion	Required to file a Loss Reserve Specialist Opinion (LRSO) annually.	Required to file an LRSO annually.	Required to file an LRSO annually.	Required to file an Approved Actuary's Opinion.	Required to file an Approved Actuary's Opinion.	Required to file an Approved Actuary's Opinion.

# Comparison of Commercial Insurance Classes in Bermuda

The tables below shows how the Minimum Solvency Margins (“MSM”) and liquidity ratio are determined:

Class of Insurer	Class 3A	Class 3B	Class 4	Class C	Class D	Class E
MSM greater of:						
Minimum Statutory Capital & Surplus	\$1,000,000	\$1,000,000	\$100,000,000	\$500,000	\$4,000,000	\$8,000,000
Premium Test	20% of first \$6M NPW plus 15% of NPW in excess of \$6M	20% of first \$6M NPW plus 15% of NPW in excess of \$6M	50% of NPW, 75% of GPW	n/a	n/a	n/a
Loss Reserve Test	15% of loss reserves	15% of loss reserves	15% of loss reserves	n/a	n/a	n/a
Assets	n/a	n/a	n/a	1.5% of assets	2% of first \$250M assets plus 1.5% of assets in excess of \$250M	2% of first \$500M assets plus 1.5% of assets in excess of \$500M
Enhanced Capital Requirement (ECR)*	25% of ECR	25% of ECR	25% of ECR	25% of ECR	25% of ECR	25% of ECR

# Comparison of Commercial Insurance Classes in Bermuda

The tables below shows how the Minimum Solvency Margins (“MSM”) and liquidity ratio are determined:

Class of Insurer	Class 3A	Class 3B	Class 4	Class C	Class D	Class E
Where solvency test is failed	Notify the BMA and provide report on the failure and remediation plan within 14 days.	Notify the BMA and provide report on the failure and remediation plan within 14 days.	Notify the BMA and provide report on the failure and remediation plan within 14 days.	Notify the BMA and provide report on the failure and remediation plan within 14 days.	Notify the BMA and provide report on the failure and remediation plan within 14 days.	Notify the BMA and provide report on the failure and remediation plan within 14 days.
Liquidity ratio	Relevant assets** must equal at least 75% of relevant liabilities** *.	Relevant assets must equal at least 75% of relevant liabilities.	Relevant assets must equal at least 75% of relevant liabilities.	n/a	n/a	n/a

\*ECR is the maximum of the MSM and BSCR requirements. BSCR will almost always be greater than the MSM and will hence drive the ECR.

\*\*Relevant assets refer to certain items contained in the insurer’s statutory balance sheets including cash and cash equivalents, quoted investments, unquoted bonds and debentures, investments in first mortgage loans on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers.

\*\*\*Relevant liabilities are total insurance reserves and total other liabilities less deferred income taxes, sundry liabilities, and letters of credit, guarantees or other instruments that do not relate to the insurers’ insurance contracts.

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## How Deloitte Can Help

Whether your commercial operation's objective is to (re)insure property and casualty, employee benefit/pension obligations, life-contingent or medical risks, we have the right expertise in our global network to appropriately evaluate and develop a suitable solution.

Once you are ready to set up your commercial operation, you will need to select professional service providers and prepare the relevant documentation. We have experience developing pre-incorporation documents, and great relationships with local service providers, and can help you with your application. From there, it is a streamlined process to receive your insurance license.

If you would like to learn more about the application process or would like more information on commercial use cases we have observed in the market, please do not hesitate to contact us.



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