

Sidecars and ISACs

Which is right for you?



Sidecar

A sidecar is a financial structure set up by an (re)insurer to obtain additional reinsurance capacity by attracting external investors. Sidecars are typically reinsure **specific** risks or portfolios.

Key Characteristics

- Capital is provided by external investors who are interested in the returns from the reinsurance premiums
- Primarily used for short-term risk transfer, often linked to catastrophe bonds in P&C insurance but is also used for life insurance risks
- Allows for external investment, where investors can take on the risk associated with the reinsured portfolio in exchange for potential returns. This is attractive to investors seeking alternative risk related returns not covered by their existing portfolios.



ISAC

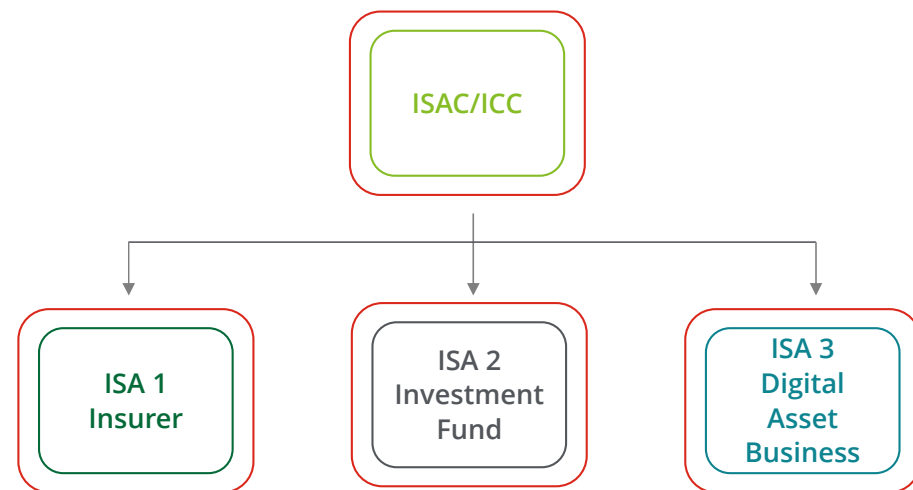
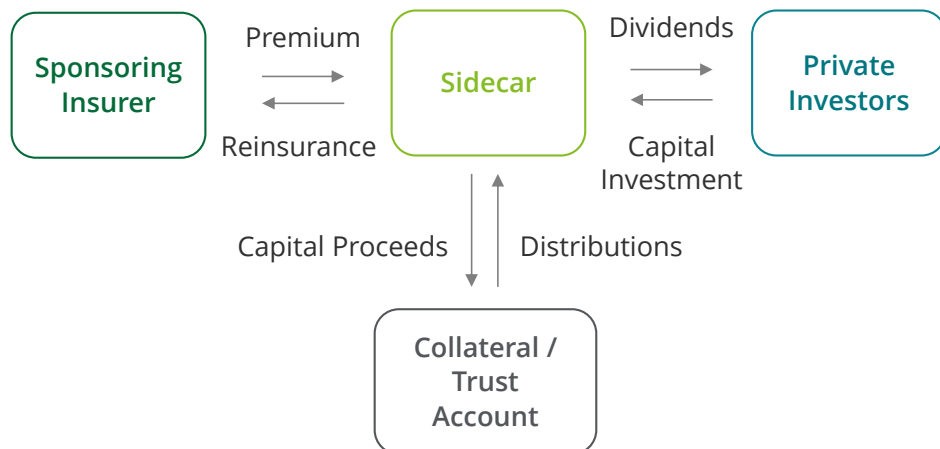
ISACs are structures where each account is legally segregated and ring-fenced within a larger incorporated cell company (ICC). Each account operates independently with its own assets and liabilities, but all accounts are under the umbrella of the ICC.

Key Characteristics

- ISACs are part of an ICC, which provides legal segregation of assets and liabilities for each account
- Each ISAC operates as a distinct legal entity under the ICC and a Board of Directors is required for each ISAC
- Mainly used to manage different portfolios or lines of business within a legally protected framework
- Governed by specific regulations in jurisdictions that allow ISACs to operate. Bermuda is one of the markets where these are permitted

Sidecars and ISACs

Basic Structures



Each of these structures have their own unique pros and cons. What is the right choice for your business when expanding into Bermuda, or as an existing Bermuda Reinsurer looking to optimize their capital structure?

Deloitte Bermuda has extensive experience helping multinational reinsurers establish operations in the region and we are acutely aware of the common pitfalls in the licensing process. We guide you through the licensing process, assisting with business plan preparation and ensuring all documents meet Bermuda Monetary Authority (BMA) requirements. Additionally, we set up or enhance your actuarial processes, systems, and teams to optimize your operations in Bermuda.

Sidecar

ISAC

| Long-term Business Strategy | <ul style="list-style-type: none"> • They are primarily used to respond to market opportunities or if there are specific high-risk exposures that the insurer wants to offload from their balance sheet. • This is used to enhance capital efficiency or to speculate on new lines of business without long-term commitment. | <ul style="list-style-type: none"> • They allow insurers to manage multiple lines of business or risk portfolios under a single umbrella, offering more flexibility and efficiency in resource allocation. • The ISAC structure is more suitable towards a diversified and stable growth approach. |
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| Capital Management | <ul style="list-style-type: none"> • Provide an avenue to access alternative capital markets. • Sidecars can enhance an insurer's capital base without diluting existing shareholders, which is useful for managing high-risk or capital-intensive ventures. | <ul style="list-style-type: none"> • ISACs allow for the segregation of assets and liabilities within the same corporate structure. This can lead to the optimization in the use of capital across different business segments and more predictable financial outcomes. • ISACs support a more conservative risk management approach. The legal segregation of accounts means that the risks and liabilities of one account do not affect others, which results in a more controlled risk environment. |
| Market Positioning | <ul style="list-style-type: none"> • Sidecars demonstrate an insurers' ability to be flexible in the way that they manage risk. Where these arrangements are successful, the insurer can be perceived as forward-thinking, adaptable and this may attract further interest from external investors, particularly those that seek alternative risks for their investment portfolios. • This structure does lead to a more dynamic and transactional relationship with investors. They require active management of investor relations. | <ul style="list-style-type: none"> • ISACs demonstrate the insurers' ability to have structured risk management practices. This can enhance the insurer's reputation for reliability and stability in the market, potentially attracting more conservative clients and investors. • This structure provides a more stable and predictable framework for managing long-term client relationships. |

Sidecar

ISAC

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| Growth and Flexibility | <ul style="list-style-type: none"> Sidecars offer flexibility for specific reinsurance needs, which are often short-termed. They can be created and resolved relatively quicker, which aligns with opportunistic ventures and scenarios where a quick response to the market is required. The governance structures are relatively more complex due to the relationship with external investors. The insurer needs to balance control with the expectations of investor requirements, which leads alternative governance considerations. | <ul style="list-style-type: none"> ISACs are highly scalable for managing multiple lines of business. They allow insurers to efficiently add new segregated accounts as the business rows or as new opportunities arise. These allow for centralized corporate governance within the overarching structure of the ICC. This can lead to more consistent and controlled management practices across different segments. |
| Regulatory | <ul style="list-style-type: none"> The BMA requires “sophisticated participants” to engage in Sidecar business and that each board position be filled with individuals with sufficient qualifications. Must have audited GAAP financials if writing unrestricted business and must submit a SFR using GAAP financial statements | <ul style="list-style-type: none"> ISAC’s must be registered under the ISAC Act. The ISAC and corresponding ISA’s will have separate legal personalities. ISA’s can be transferred between ISAC’s with approval from the BMA. Each ISAC and ISA must have a separate board of directors, with at least one director overlapping each entity. ISACs and each corresponding ISA underneath must prepare their own set of financial statements. |
| Licensing | <ul style="list-style-type: none"> These are typically smaller structures intended for specialized business purposes, more commonly in the P&C space, and will have to apply for a license based on the type of business it intends to write. May be registered as restricted or unrestricted, governing the types of insurers they can interact with. | <ul style="list-style-type: none"> ISAC’s and each ISA should have their own license. ISACs can expect restrictions to holding capital and not writing any additional insurance business. The licensing application must include a business plan of the complete ISAC structure, details of ownership and financial projections. |
| Fees | <ul style="list-style-type: none"> Each Sidecar will have to pay a separate license fee depending on the nature and size of business it plans to write. These will be aligned to the BMA insurance class fee structure. | <ul style="list-style-type: none"> Fees are determined by the type of insurer dictated by the insurance class and fee structure set out by the BMA and will apply to each separate ISAC and ISA license. Although each ISA will require its own license, some relief is allowed in that each ISA will be expected to pay between 25% - 75% of the full licensing fee of the commercial insurance class. |

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