Captive Insurance Guide

A review of captives and the Bermuda captive insurance market

Adding strength and balance to risk management

—

2024

Introduction

Insurance premiums are a significant operating cost for any business, irrespective of its location or industry. Unfortunately, the underwriting process isn't as simple as an insurer pricing a risk to cover the potential loss for that business in the upcoming period. The insurer will also factor in the distribution cost, the cost of using their capital to insure the risk, including a margin for profit, as well as the overall performance of all their clients within the risk concerned. A fundamental principle of insurance being that the premiums of many cover the losses of the few.

Additionally, a business won't know the cost or terms of their insurance program for the upcoming year until policy renewal. This makes insurance a very difficult cost to budget against. Even if a business has a great year with very low claims, it is still possible for the premium to increase if the insurers portfolio (that includes your risk) has experienced a large volume of losses.

These factors are receiving increased attention across businesses globally as the commercial insurance market has seen significant price increases globally. Businesses are now reviewing alternatives to commercial insurance and questioning whether their current insurance programs are still fit for purpose.

Beyond cost and pricing, the commercial market is trending toward reducing the capacity available and restricting coverage. This guide provides a comprehensive background to one such alternative, captive insurance.

Contents

We will also include several case studies for projects we have completed, and background to the KPMG team in Bermuda that is leading the way as a captive center of excellence.

An overview

An introduction and background to captives

A ‘captive’ insurance company is a special-purpose legal entity licensed as a (re)insurer that is established to predominantly insure or reinsure the risks of its parent, or organisations affiliated with its parent(s).

Captives have existed in some form since the 1870s, when the first protection and indemnity clubs were created. However, growth of the captive market was slow up until the 1960s when only about 100 captives were formed.

The Bermuda market was where the significant growth of captives began in the 1970s, with greater growth in the 1980s and 1990s due to a hard insurance market and the difficulty in obtaining traditional insurance to cover organizations' exposure to liability claims.

A wide range of companies, not-for-profit organisations and government agencies worldwide rely on captives as part of their programs for managing risk. Emerging risks that are difficult to insure within traditional insurance markets have acted as another driving force behind the growth in captive insurance. A captive can also include risks that are generally excluded in traditional insurance policies.

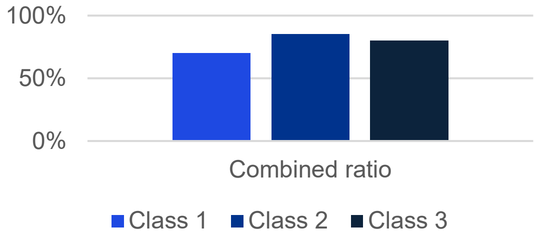
The captive insurance industry is experiencing change driven by the shifting regulatory landscape, the general application of proportionality of regulatory requirements, international tax developments and the high variability of the commercial insurance market. We see a number of trends in the use of captives:

- A significant increase in small to mid-size captives, up to US$5m net premium, created in recent years.
- A growing trend for increased diversification within captives to cover new risks, such as warranty, D&O, cyber and employee benefits. This has been led by an increased drive for capital efficiency and building out the captive based on success.
- Captives have also witnessed growth in insuring unrelated (third-party) risks, such as contractors, customers and/or suppliers. By doing this the captive achieves greater risk management control and centralisation, as well as recapturing underwriting profit from the commercial insurance market.

Approximately 7,000 captives worldwide.[1]

Roughly **90% of Fortune 500 companies** have captives, many in the most experienced captive jurisdictions. Bermuda, Cayman Islands and Vermont together are domicile to approximately one third of licensed captives globally.[3]

AM Best report that the captive composite’s five-year average combined ratio, a measure of profitability used by an insurance company, of 83.9% has outperformed the commercial composite average of 98%.[2] Bermuda captives, highlighted below, follow suit.

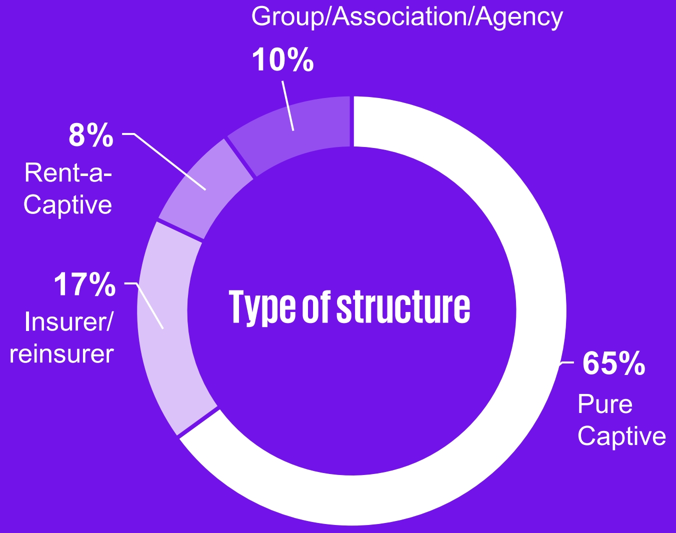


> Bermuda is the world's leading domicile for captive insurance, offering a robust regulatory framework, tax efficiency, and a rich pool of industry expertise. Choosing KPMG as your service provider ensures unparalleled global reach, deep industry knowledge, and customized solutions to optimize your captive's performance and compliance, making your business goals achievable.

Bron Turner
Sector lead, Captives
KPMG in Bermuda

Source: 1. AM Best, Captive International 2021; 2. https://www.captiveinternational.com/news/am-best-captives-outperforming-commercial-casualty-composite; 3. Captive Review

Structures



The Bermuda captive market largely consists of pure captive structure.[1]

Source: 1. For 2021; Source: BMA Captive Report, 2022

There are a wide range of potential structures that can be adopted, including:

01 A single parent captive

The captive is entirely owned by the parent company, which determines the level of risk it is willing to take on and selects the insurance lines for the captive to cover, as well as the optimal use of capital. Furthermore, the parent company establishes the investment strategy and has the authority to decide on the allocation and distribution of profits. This setup is the most prevalent in the industry and is internationally recognised, serving as a great tool to replace or complement the traditional commercial insurance market.

02 Third party captives

(such as rent-a-captives and protected cell captives)

Segregated Account Companies offer a business a softer approach to incorporating a captive. The business can own shares or a governing instrument within a segregated account from the segregated account core. Most large insurance managers operate a segregated account company. The core comprises of a board of directors providing minimal regulatory or operating capital. The liabilities of each cell is independent and attributable to the shareholder. The liability of each cell owner are independent.

03 Group/association captives

Here multiple businesses, usually from the same industry, will join together to pool their risk for one or more lines of insurance into one structure. This generally offers greater economies of scale and diversification if a business isn't large enough to warrant its own individual captive.

Affiliate reinsurer

Affiliate reinsurers are captive entities established by insurance conglomerates or MGAs. Their function mimics that of a separate unit within an insurance group, designed to aggregate and provide reinsurance for their underlying insurance operations. The principal advantages include the capability to combine diverse portfolios of business and, subject to the regulations of different regions, facilitate a degree of capital optimisation and grant increased latitude in the allocation of excess capital.

Key players

There are four key participants for a captive:

01 Captive Managers

Captive managers provide a wide range of services including:

- Being the primary contact for the regulator, ensuring the captive is compliant with all regulations
- Preparing the captive's financial and operational records
- Providing insurance, risk management and underwriting expertise
- Preparing quarterly and annual financial reports
- Coordinating captive board meetings
- Providing the link between the captive's other service providers, such as auditors and actuaries

Bermuda is home to many of the largest captive managers.

02 Insurance Brokers

Typically, placement brokers serve in the capacity of the insured's representative, effectively orchestrating the insurance coverage process. Their role involves securing consensus and clarity between the insured parties and insurance providers to ensure the insurance protection aligns with the agreed-upon terms and conditions. When required, these brokers also enable access to international insurance markets, such as those in London and Bermuda.

Renowned brokers that deliver comprehensive global services include:

- AJ Gallagher
- AON
- Lockton
- Marsh
- WTW

Regarding program architecture, brokers provide an extensive suite of services, which encompasses:

- Coordination of policies
- Facilitation of reinsurance contracts
- Support for compliance-related matters

03 Fronting Insurer

Typically, captives are not licensed to issue policies internationally, and some insurance products can only be provided by locally regulated insurers. Through a fronting arrangement a licensed insurer will issue the policy in the relevant country, and then reinsure the risk, either in whole (gross) or part (net) back to the captive. Today, many fronting insurers prefer to retain a portion of the risk being fronted. The major insurers who offer fronting services include:

- AXA XL
- AIG
- Chubb
- Zurich

In terms of program structure, fronting partners offer a wide range of services, including:

- Policy administration
- Cash flow management
- Claims management and
- Compliance support

04 Reinsurers

A captive is able to directly access the reinsurance market. This direct engagement adds a significant degree of control over the negotiation of policy terms, leading to a custom-made approach that can more precisely match the risk management needs of the parent organisation. The flexibility obtained often extends to the scope of coverage, policy limits, and the inclusion of specific clauses that might not be as readily negotiable in standard commercial insurance arrangements. In addition, captives can circumvent some of the mark-ups that would typically be applied by primary insurers to cover their overheads and profit margins. Consequently, the cost savings can be beneficial, although the extent of these savings will vary based on many factors, including the reinsurance company's assessment of the captive's risk profile and its parent company's financial stability. Thus, a captive's strategic approach to reinsurance procurement is not simply a cost-saving measure. Properly utilised, it presents an opportunity for enhanced risk control, financial efficiency, and a more robust alignment of insurance mechanisms with corporate objectives.

Drivers and benefits for decision-makers

Risk Manager

Improve the operational performance of sophisticated risk management strategy.

- Enhance control over insurance programs
  - Additional control allows for tailored insurance policy terms and conditions to better fit the organisation's specific risk profile.
  - Captives also allow risk managers to access new insurance providers and reinsurers to customise the capacity structure.
- Support risk management initiatives and loss prevention
  - Captives process claims and retain earnings. This incentivises organisations to focus on loss prevention and align risk management and financial goals.
  - Captives are also a great tool to incubate insurance for new and emerging risks.

Chief Financial Officer

Control cost management, enhance profitability and overall business resilience

- Reduce the insurance spend and reduce premium leakage
  - By self-insuring certain risks, the organisation can avoid market premiums, administrative costs, and mark up associated with traditional insurance, leading to potential long-term savings.
  - Captives can be used to accumulate reserves, which can be invested and managed strategically to improve the organisation's overall financial position.
- Improve flexibility and alignment with corporate strategy
  - Captives are a great vehicle allowing for innovative risk financing solutions.
  - Captives help with managing global risks and could fund employee benefit initiatives.

Chief Executive Officer

Support stability and growth for the organisation,

- Remove any unwelcome surprises
  - Reducing reliance on the commercial insurance market helps achieve added predictable insurance costs and protect from market volatility.
- Enhance risk and corporate governance
  - Captives align risk management with company-wide objectives and generate financial results. This fosters a culture of proactive risk management.
- Support growth and establish a new profit centre
  - Captives will partner with the business to provide the required insurance coverage and retain and reinvest the underwriting profits.

Strength of Bermuda's Market

Bermuda is a leading captive domicile globally – offering concentrated expertise with seasoned insurance professionals, a rigorous and robust regulatory environment aligned with international imperatives and ongoing professional development through the Bermuda Captive Network and Captives-focused conferences.

Bermuda insurance market

1,200
Number of registered insurers

$268tn
Gross written premiums

As of December 31, 2023

Bermuda Captive insurance market

653
Number of captives currently licensed

19
New captives in the last 18 months
As of June 30, 2024

$142bn
Total Assets under management
As of December 31, 2023

$31bn
Gross written premiums

Source: Bermuda Captive Network and Bermuda Business Development Agency 2024

Location of risk assumption

Source: For 2021; BMA Captive Report 2022

Top 5 industries

using a captive:

- ✓ Financial services
- ✓ Automotive, manufacturing and retail
- ✓ Shipping, transport and storage
- ✓ Healthcare
- ✓ Professional services

Short-tail coverage

represents **65%** of all business written by Bermuda captives in 2021.

Main lines include:

- ✓ Property & casualty catastrophe
- ✓ Warranty and residual value
- ✓ Marine
- ✓ Property damage and business interruption

Long tail coverage

represents **35%** of all business written by Bermuda captives in 2021.

Primary lines include:

- ✓ General liability
- ✓ Workers' compensation/employers' liability
- ✓ Professional liability
- ✓ Accident, health, travel, personal accident

International cooperation and worldwide endorsements

- Bermuda meets the International Association of Insurance Supervisors ("IAIS") norms, cementing the recognition of its captives worldwide.
- As a participant in numerous tax information exchange agreements and the OECD's Common Reporting Standard ("CRS"), Bermuda has affirmed its dedication to global financial openness.
- Securing full Solvency II equivalence in 2016, Bermuda has showcased regulatory excellence on par with the European Union's stringent insurance frameworks.
- The U.S. National Association of Insurance Commissioners (NAIC) has granted Bermuda the status of a qualified jurisdiction, facilitating smoother transatlantic transactions for its captives.
- The European Union's acknowledgement of Bermuda's regulatory regime further allows its captives to engage with confidence within the E.U. market.

Set up process

Phase 1: Preliminary feasibility analysis

This high-level desk-based review will consist of an assessment of an organisation's existing risk management structure and commercial insurance program investigating whether a captive will fit into the business's operations. If feasible, the analysis will then focus on a rough cost versus benefits analysis for a captive. It will also review the potential captive structures and compare a number of short-listed domiciles to give the business all the information needed to decide whether they should move forward with a captive.

This analysis can be completed within 2-3 weeks and, as it is desk-based, keeps the costs down for the business.

Phase 2: Detailed feasibility study

At this stage, the business would have made the decision to undertake a full feasibility study. Here, a blueprint for the captive will be created confirming the structure and jurisdiction. A business plan will be prepared with supporting 5-year financial projections that need to be sent to the regulator for approval. The business will also decide upon all service providers that the captive will utilize. This study will take the captive all the way through to implementation and include input from actuarial and tax experts.

This study will take between 4-8 weeks, depending upon the complexity of the insurance program.

Setting up a captive in Bermuda

The following represents the procedures involved in the incorporation and registration process for a captive insurance company (KPMG can advise throughout this process):

Select professional service providers (lawyers, auditors, insurance managers, bankers, actuaries)

Reserve preferred name of company with Registrar of Companies

1. Submit preferred name, with two alternate names
2. Will be reserved for three months

Apply to BMA to incorporate company and complete pre-incorporation documents

Submit application to register Memorandum of Association to Registrar of Companies

Incorporation applications approved. Incorporate and capitalize company and convene organizational meeting

Submit licensing to BMA for review by assessment and licensing committee; successful applications are approved for licensing

Finalized pre-incorporation documents submitted to BMA's licensing and authorizations department for final registration

BMA issues insurance license and captive can begin to operate

Lifecycle

We understand what is required for the successful management of a captive – throughout its lifecycle. The combination of our team's experience with start-ups, deep knowledge of the Bermuda regulatory environment, and established working relationship with the BMA, makes us the advisor of choice for captives in Bermuda.

On-going operation

Continuous monitoring of the operation, loss reserves and excess capital.

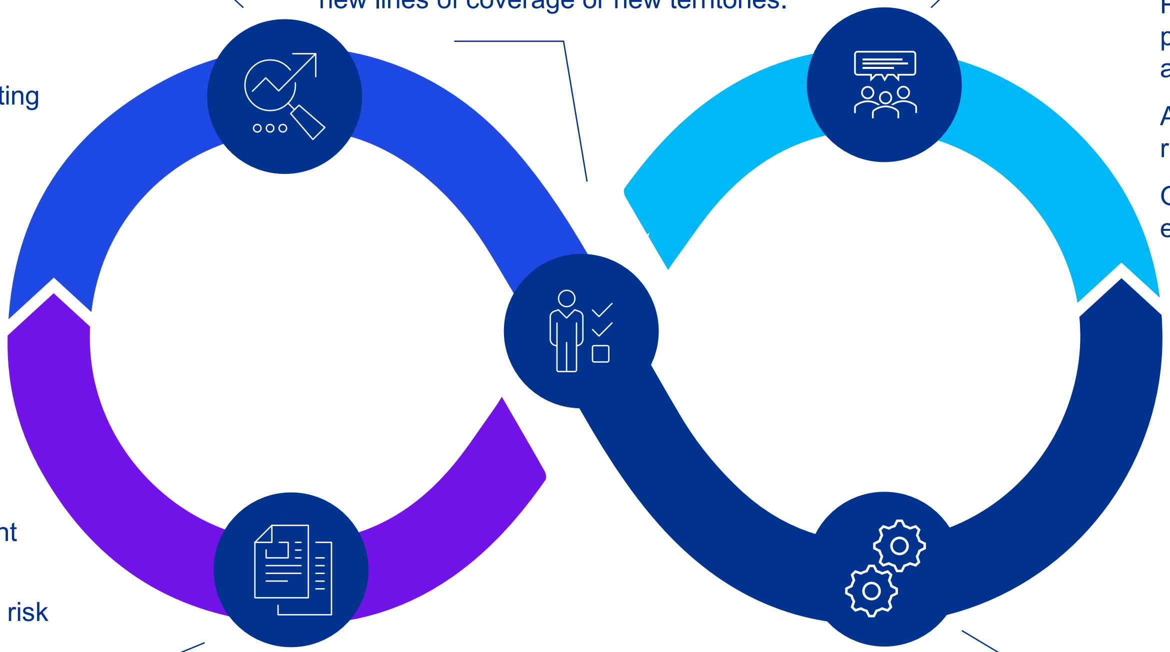
Expand the retention levels and additional risks, new lines of coverage or new territories.

Launch

Build the business plan and submit the application to the local regulator.

Start underwriting, issuing policies, collecting premiums and arranging reinsurance structures.

Hold the initial Board meeting in the jurisdiction.



Review

Periodical assessment of the captive performance against the initial business plan and design principles.

Adjustment to align with the organisation's risk profile and business strategy.

Opportunity for optimising risk financing efficiency.

Design

Complete all preliminary assessments to determine if setting up a captive is the right strategic move for the organisation.

Define the captive structure, domicile and risk to be retained.

Restructuring

Should a captive no longer provide benefit to the parent it can stop underwriting and be placed in run-off allowing outstanding liabilities to either expire naturally or be sold to a run-off acquirer to manage any residual claims.

Any remaining capital or reserve would be distributed to the parent company.

Case studies

01 KPMG operational review case study – Global automotive manufacturer and distributor

KPMG was engaged by a global automotive manufacturer and distributor to review its worldwide insurance operations and provide ongoing assistance with the implementation of a coordinated risk management and captive insurance structure for the client's continued expansion.

KPMG's multidisciplinary team of professionals performed a critical analysis of the client's existing insurance coverages and evaluated the strategic considerations involved in global domicile selection. During this process, KPMG reviewed a number of European domiciles in order to determine the most beneficial location for writing insurance business in over 20 European countries, including Ireland, Malta and Switzerland. Ultimately a global network of insurance companies was required to meet the complex tax and regulatory considerations in all corners of the globe.

As part of this engagement, KPMG delivered an exhaustive report which identified the recommended design and domicile for the client's global risk-taking enterprise. Moreover, KPMG provided global project management and enabled the client to integrate and address the information technology, human resources, tax compliance and treasury considerations within this global enterprise.

Today this captive stands as one of the largest in the world, with an A.M. Best rating of A-. It maintains operations in Bermuda, Malta, Canada, and the United States with expansion plans underway for Russia, China, Mexico, Australia, and Switzerland. The captive provides coverage to customers in over 30 countries and has delivered several hundred million dollars of quantifiable net income benefit to the organization.

02 KPMG feasibility study case study – Global fleet operator

KPMG was engaged by a major motor leasing company to undertake a ground-up review of their risk transfer strategy.

The client operated a fleet of more than 400,000 motor vehicles and relied on third party commercial insurance to meet its insurance requirements for the fleet. KPMG was retained to assist the client and to create a capital model to assess the optimum level of risk retention in the group.

KPMG then undertook a detailed captive feasibility study to consider the most appropriate domicile and capital structure for the proposed captive. KPMG then assisted the client in undertaking a cost benefit analysis of the existing insurance structure. The captive was anticipated to underwrite £400 million of gross premium per year and is projected to save the client circa £80 million over the next 5 years.

03 KPMG restructuring case study – Global Logistics Provider

KPMG was engaged by a global logistics provider to perform a comprehensive analysis of the client's European captive reinsurance program and provide recommendations regarding the relocation and restructuring of those operations in other domiciles.

KPMG reviewed the client's existing business operations, the client's structural options, the client's domiciliary options and identified the benchmark critical factors for selecting a European reinsurance captive domicile.

At the end of the engagement, KPMG delivered a comprehensive report to the client which provided a detailed assessment and matrix comparison of the strategic tax and regulatory considerations for reinsurance operations in Bermuda, Malta, Gibraltar, Guernsey, Luxembourg, Isle of Man, Ireland and Switzerland.

04 KPMG operational Review – Global Energy Company

KPMG was engaged by a global energy company to support the review of the client's strategic use of its existing captive.

KPMG reviewed the following:

- Amount of capital committed to the captive
- The strategic opportunities that existed to competitively leverage excess capital
- The captive's approach to pricing and premiums charged
- How the captive's capital should be allocated by line of business with consideration of diversification benefits.

KPMG provided recommendations to increase the value of captive operations(including claims) for retained risks through benchmarking analysis of the current insurance strategy against peers and leveraging robust industry sources.

KPMG in Bermuda

We have over 160 people delivering Audit, Tax, and Advisory services across five industry lines: Insurance, Asset Management, Banking, Government and Public Sector, and to Bermuda's Middle Market through KPMG Private Enterprise.

We combine a multi-disciplinary approach with deep practical industry knowledge to help our clients meet challenges and respond to opportunities. Using KPMG's local and global reach, and the skills and talents of our people, our team can provide industry specific services that can add real value to you.

We are a member firm of KPMG International, whose member firms have 273,000 employees working in 143 countries and territories around the world.

By the Numbers

160+ Employees	70+ years serving Bermuda
15 Partners	11 Directors

Our services

Audit and Assurance

Our audit services cover more than just the audit of financial statements. We benchmark our clients' businesses against peers and best practice, and provide meaningful feedback to management, boards, and audit committees. Our approach is designed to fit and evolve with our clients; meaning it is efficient in delivering a quality, robust audit with helpful challenge, forward thinking and regular insights.

Tax

Our tax team has extensive experience providing tax advisory and compliance solutions to the Bermuda business ecosystem and global Fortune 500 companies. We focus on understanding the relationships between tax laws and the accounting, regulatory, and business environment. By combining our industry insight and our technical skills, we provide clients with practical solutions. Our dedicated tax professionals are an integral part of the KPMG global tax network.

Advisory Services

No matter where you are in the business cycle, we can help. Whether it's advice on improving the performance of your business, undertaking a transaction or seeking advice on how to handle risk and compliance, our advisory professionals can help you achieve your business goals.

Increasingly, captives are critical tools for organisations to actively manage their insurable risks and demonstrate returns. Recent economic and political turbulence in the global markets has only highlighted the importance of building agile corporate structures and strategies to safeguard investment returns.

Broadly, KPMG Advisory works with clients to tackle challenges in: Management Consulting; Risk Consulting; Deal Advisory and Learning & Development services.

Our Values

Values create a sense of shared identity at KPMG. They define what we stand for and how we do things, helping us to work together in the most fulfilling way to provide the best service to our clients.

Integrity
We do what is right

Excellence
We never stop learning and improving

Courage
We think and act boldly

Together
We respect each other and draw strength from our differences

For Better
We do what matters

Our culture

Our KPMG Code of Conduct is one of our most important documents. It expressly lays out the expectations of ethical behaviour for all our people, built on the foundation of the KPMG Values. The Code is available on our website at: kpmg.bm

Our Corporate Citizenship

At KPMG, we represent our values through action. It is with pride that we commit ourselves to our communities. We act as responsible corporate citizens, committing time, resources and financial support to local service organisations and charities, with a particular focus on education and youth development. Additionally, we provide professional services on a full or partial pro-bono basis to not-for-profit organizations.

Meet the team

Bron Turner
Partner, Sector Lead, Captives
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Bron is with the audit practice of KPMG in Bermuda with over 14 years of experience, including over a decade of experience in the Bermuda financial services market.

He works with a wide-range of (re)insurance structures, leveraging his extensive experience in US GAAP, IFRS and Bermuda regulatory reporting requirements.

Bron is the engagement lead for several captive (re)insurance companies and has built an extensive network within the captive insurance marketplace.

Clients appreciate Bron's passion, clear communication style and hands-on, pragmatic business approach.

Minesh Ranchod
Director
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Minesh is in the firm's insurance audit practice with over 13 years of experience – ten of which were earned in the Bermuda insurance industry. Minesh has worked on the audits of large commercial reinsurance and captive insurance clients covering property and casualty risks. He has also audited a number of ILS (insurance linked securities) structures. He has experience in US GAAP, IFRS, UK GAAP and Bermuda statutory reporting requirements. Minesh is currently the engagement lead on the external audits of a number of captive insurance vehicles and also has a continuing role on the audit of a large listed reinsurer.

Anam Khan
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Anam is the Head of the Management Consulting and Actuarial practice at KPMG in Bermuda. She is a qualified actuary and has 13 years' of experience in the insurance sector. Her recent experience includes assisting several (re)insurers set up in Bermuda across the captive, commercial P&C and commercial Life sectors.

Prior to KPMG, Anam worked in the London office of the Boston Consulting Group specialising in post-merger integration and general insurance growth strategy. Prior to that, she worked in another Big 4's actuarial practice focused on risk and capital, implications of Solvency II and insurance M&A.

Sarah Robey
Partner
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Sarah is a Partner in the Tax department. She has over 15 years of experience assisting clients in the financial services industry with US federal, state & international tax issues, including both (re)insurance and alternative investment clients. Her clients cover a broad spectrum of the financial services

industry, including insurance and reinsurance companies, captive insurance arrangements, hedge funds, private equity funds, and other alternative investment vehicles.

Pierrick Livet
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Pierrick specialises within Captives and Insurance Risk Management. With over 14 years of experience working for composite insurance groups and broker in Switzerland and in the London Market, he has gained extensive knowledge on insurance program structuring and optimisation.

Prior to joining KPMG, Pierrick was leading the Business Development initiative for the Multinational and Global Fronting proposition in London for a Global Insurance company and leader in the field. In this position, he developed unique skills working with clients, colleagues and partners across more than 100 countries. His clients appreciate his holistic and creative approach in providing solutions designed to meet their specific goals.

Lourens de Coning
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Lourens is responsible for managing the Life Actuarial practice at KPMG in Bermuda. He is a qualified fellow actuary and has over eight years of actuarial experience covering valuation, reserve studies, capital modelling, data analytics, embedded value reporting, product pricing and risk and governance.

Joy Salting
Senior Manager
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Joy is in Bermuda's audit practice with a particular focus on providing services to captive (re)insurance, life and commercial insurance clients.

Joy has over 10 years audit experience, including four years in the Bermuda market. She has worked with a broad range of global and regional (re)insurance clients writing property, casualty, financial, life and health risks. Over this period, Joy has gained significant experience in US GAAP, IFRS and Bermuda regulatory reporting requirements.

Harjit Saini
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Harjit is with Bermuda's audit practice, with experience in US GAAP, IFRS, Canadian ASPE and Bermuda statutory reporting requirements.

Harjit started his career with KPMG in Canada, where he worked with clients in the manufacturing and retail industries. Since joining the Bermuda firm, he has expanded to insurance and asset management. Currently, he serves as lead audit manager on a number of Bermuda domiciled funds and captive (re)insurer entities.

Allison King
Senior
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Allison is a Senior in the Life Actuarial function at KPMG in Bermuda. She was previously in the position of Actuarial Analyst in the Life Corporate Actuarial team and data analytics. Prior to that, she worked as an intern at Discovery, a global insurance company.

Appendix 1: Bermuda classes of captive insurer

A general (non-life) captive insurer will generally fall into one of the following classes:

Class	Description
Class 1	Applies to single parent captive insurance companies owned by one or more affiliates of a group and underwriting only the risks of the owners of the insurance company and affiliates of the owners.
Class 2	For multi-owner captives defined as insurance companies owned by two or more unrelated persons, provided the captive underwrites only the risks of the owners and their affiliates and/ or risks related to, or arising out of, the business or operations of the owners and affiliates. A Class 2 license also applies to single parent and multi-owner captives writing no more than 20% net premiums from unrelated risks.
Class 3	Applies to single parent and multi-owner captives writing more than 20% but less than 50% of unrelated risks.

A long-term (life, annuity or long-term health and accident) captive insurer will generally fall into one of the following classes:

Class	Description
Class A	A single-parent, long-term captive insurance company underwriting only the long-term business risks of the owners of the insurance company and affiliates of the owners.
Class B	Multi-owner, long-term captives which are defined as long-term insurance companies owned by unrelated entities, provided that the captive underwrites only the long-term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates.

Appendix 2: Bermuda Summary of captive requirements

Captive Classes

Requirement	General (1, 2 & 3)	Long-term (A & B)
Minimum Solvency Margin	Greater of: 1. Flat amount depending on class 2. % of net premium written depending on class 3. % of loss reserves depending on class	Greater of: 1. Flat amount depending on class 2. % of assets depending on class
BSCR Model for Enhanced Capital Requirement (“ECR”)	N/A	N/A
Economic Balance Sheet (“EBS”)	N/A	N/A
Minimum Liquidity Requirement *	YES	N/A
Statutory Financial Return *	YES – to be filed 6 months after year end	YES – to be filed 6 months after year end
GAAP financial Statements	Can be waived	Can be waived
Quarterly Financial Return (unaudited)	N/A	N/A

* Minimum liquidity requirement

A captive must meet a minimum liquidity ratio requirement to maintain the value of its ‘relevant assets’ at no less than 75% of the amount of its ‘relevant liabilities.’ Unquoted equities, investments in and advances to affiliates, real estate and collateral loans are not ‘relevant’ for calculation of the liquidity ratio.

Statutory financial return

Every captive must file an annual statutory financial return with the BMA. The statutory financial return comprises the risk return, a statutory declaration of compliance and where necessary, an actuarial certificate for the loss reserves. All class 2 companies must provide an actuarial certificate for the loss reserves every three years, while every long-term captive insurer and class 3 must provide this certificate annually. The risk return is a self-assessment that firms conduct on an annual basis, appropriately modified given the limited-purpose and lower-risk profile of captives. This ensures firms remain appropriately classified and supervised within the BMA’s risk-based framework. The risk return includes the audited statutory financial statements; supplemental unaudited financial data including investment, underwriting, reserving and collateral; a qualitative assessment, and a confirmation of compliance with other aspects of the license, including changes to controllers and the ability to continue to operate at current capital levels. The information filed under the risk return will not be publicly available. Captives are required to file statutory financial returns using the electronic statutory financial return (E-SFR) system.

Appendix 3: Bermuda minimum solvency margin

Amendment Act 2004
An insurer must maintain a minimum capital and surplus depending on its class on license as detailed in the tables below:

Class minimum margin of solvency

Class	Greater of:
Class 1	(a) $120,000, (b)20% of the first $6m of net premiums written (NPW) plus 10% of the excess of $6m of NPW (c)10% of loss reserves.
Class 2	(a) $250,000, (b)20% of the first $6m of NPW plus 10% of the excess of $6m of NPW (c)10% of loss reserves.
Class 3	(a) $1,000,000, (b)20% of the first $6m of NPW plus 15% of the excess of $6m of NPW (c)15% of loss reserves.

Class minimum margin of solvency

Class	Greater of:
Class A	(a) $120,000, (b) 0.5% of assets
Class B	(a) $250,000, (b) 1.0% of assets

Contact Us

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