



# **Bermuda Captive Market 2010**

**October 2011**

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# Summary

In 2006, The Bermuda Monetary Authority (BMA) partnered with the Bermuda Insurance Management Association to conduct a survey on the Bermuda captive insurance market. Now in its fifth year, *The Annual Market Survey on Captives (AMSC)*, covering more than half of the captive market, has collected data since 2003.

This report examines the results from the latest survey conducted in the spring of 2011 on year-end 2010 data<sup>1</sup> and catalogues the preceding seven years of available data.<sup>2</sup>

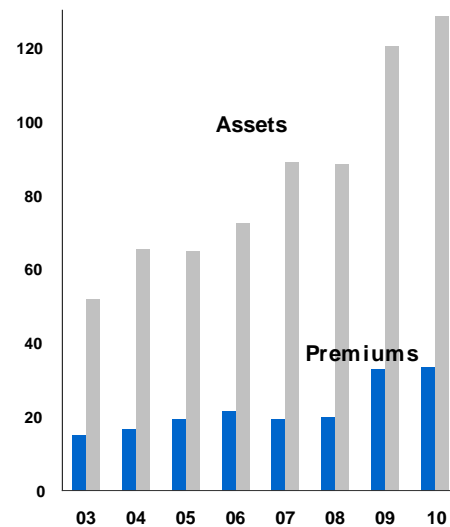
Data from the AMSC is presented in four main ways on years 2003 to 2010:

- Business written by geographical region, lines of business and industry of parent company
- Industry utilisation of Bermuda captives, their premium shares and the industry profile of new entrants to the market
- Balance sheet decomposition by asset and liabilities and investment allocation
- Profitability indicators

Primary market indicators indicate positive growth in 2010. Market premiums increased by 3% from \$32.7 billion in 2009 to \$33.7 billion in 2010. Premium growth stabilised around 2009 levels after a one-off jump of about \$13 billion from 2008 to 2009 (see Table 1), when some firms experienced large premium expansions. This also coincided with a general insurance reclassification by the BMA, resulting in a realignment based on risk profiles.<sup>3</sup>

The same factors also apply to market asset growth between 2008 and 2009. In 2010, total assets grew by 7% to about \$128 billion in 2010 as a result of improving asset valuations.

**Chart 1**  
Bermuda Market Figures  
(\$ billions) 2003-2010



Source: Statutory Filings and the Annual Market Survey on Captives for 2010

**Table 1**  
Bermuda Market Figures (\$ billions)

	2003	2004	2005	2006	2007	2008	2009	2010
Gross Written Premiums	15.2	16.7	19.4	21.5	19.4	19.7	32.7	33.7
Assets	51.6	65.3	65.0	72.1	88.8	88.3	120.3	128.2

Source: Statutory filings and the Annual Market Survey on Captives for 2010

<sup>1</sup> 2010 data is based on the management accounts of survey respondents, not on statutory annual filing and should be treated as estimations.

<sup>2</sup> Previous reports on the Bermuda captive insurance market may be accessed on [www.bma.bm](http://www.bma.bm).

<sup>3</sup> See *Consultation Paper on the Reclassification of the Class 3 Sector* available on [www.bma.bm](http://www.bma.bm).

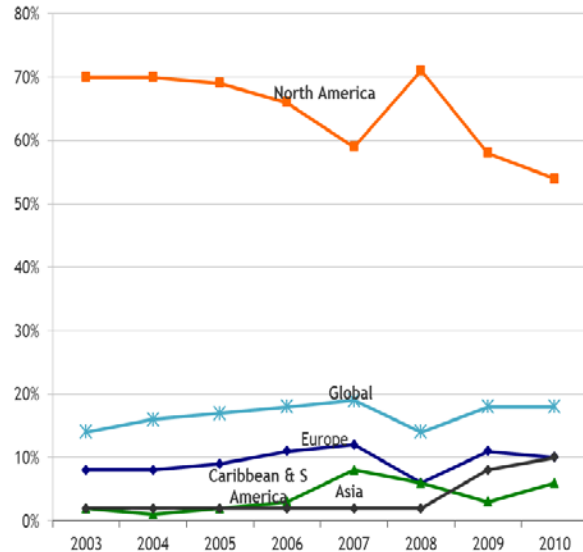
# Geography of Risk Assumption

Asia over the past two years—from 2% of all business in 2008 to 10% in 2010. This resulted from recently formed captives that were quickly assuming more risk from Asia, a rapidly emerging pattern.

In 2010, the majority of risk assumed by Bermuda captives originated again in North America in 2010 – 54% or about \$18 billion in premium income. In the first 3 years of the survey from 2003 to 2005, North America accounted for about 70% of the market. With the exception of 2008, the prominence of the region has declined, while the absolute amount of business from North America has remained stable as other regions assumed larger shares. Data on the geographic location of underlying risks is provided in Chart 2. The most predictable region has been Europe, which has maintained a steady share of between 7 and 12% of the market since 2003. Elsewhere, Bermuda has positioned itself toward the South American market, reflected in growth since 2006 and now accounting for \$2 billion of all business.

One recent change is the sharp growth from

**Chart 2**  
Trends in Risk Assumption



**Table 2**  
Premiums by Location of Underlying Risk Insured (%)

	2003	2004	2005	2006	2007	2008	2009	2010
North America	70	70	69	66	59	71	58	54
Global	14	16	17	18	19	14	18	18
Europe	8	8	9	11	12	6	11	10
S. America & the Caribbean	2	1	2	3	8	6	3	6
Asia	2	2	2	2	2	2	8	10
Africa and the Middle East	3	2	2	1	1	1	1	2
Australia and New Zealand	<1	<1	<1	<1	<1	<1	<1	<1

Source: Annual Market Survey on Captives

# Industry Utilisation

## | Demographic

Bermuda remains one of the few captive domiciles that does not concentrate in certain industries or specializes in any one kind of business underwritten for these industries. Instead, it is home to a very broad range of industries utilizing captive insurers as a key risk management tool.

Parent companies of Bermuda captives operate in a wide variety of industrial sectors led by health care (12%), manufacturing (9%), energy (6%) and financial institutions (6%). Table 3 lists the full industry of parent company results.

**Table 3**  
Industry of Parent Company (%)

Health Care	12
Manufacturing	9
Energy	6
Financial Institutions	6
Retail	5
Construction	5
Transportation	5
Business Services	4
Automotive	4
Mining, Metals, Forestry	4
Aviation and Aerospace	4
Real Estate	4
Technology and Telecom	2
Chemicals	2
Hospitality and Gaming	1
Power and Utilities	1
Sciences	1
Sports and Entertainment	1
Media	1
All Other	24

Source: Annual Market Survey on Captives

# Industry Utilisation

## | Premium Share

Energy captives – which are 6% of the market by numbers – wrote about one-fifth of all business, mostly in property damage and general liability. Table 4 shows the premium shares of the market by industry grouping.

Technology and telecom captive make up 2% of the market in numbers and write 12% of all business, largely in all risk to equipment and property damage and business interruption. Technology and telecom's all risk to equipment line was the largest line of business written in Bermuda in 2010.

Retail captives concentrated in workers compensation, product warranty and general liability, making up 11% all premiums. The captives of financial institutions accounted for 8% of total premiums, written mostly in professional liability.

**Table 4**  
Total Premiums by Industry (% share)

Energy	19
Technology and Telecom	12
Retail	11
Financial Institutions	8
Business Services	7
Health Care	7
Transportation	6
Manufacturing	4
Aviation and Aerospace	4
Mining, Metals, Forestry	3
Automotive	3
Construction	2
Real Estate	1
Hospitality and Gaming	1
Chemicals	<1
Sports and Entertainment Media	<1
Sciences	<1
Power and Utilities	<1
All Other	13

Source: Annual Market Survey on Captives

# Lines of Business

## | Property

The provision of property coverage represented 38% of all business written by Bermuda captives, the equivalent of about \$1.3 billion. Property business is broken out by line for 2010 in Table 5.

The main property lines in 2010 included:

- Property damage and business interruption (\$5.8 billion)
- All risk to equipment (\$3.8 billion)
- Marine hull and cargo (\$1.1 billion)

Interestingly, agriculture, written by a new market entrant, accounted for 9% of all property business in 2009 but has since become a marginal line in 2010.

For the full AMSC findings on property lines of business, refer to Annex 2.

**Table 5**  
**Property Lines**  
**(All Property Business = 100%)**

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Property Damage and Business Interruption	46
All Risk to Equipment	30
Marine Hull and Cargo	9
Product Warranty	4
Credit Risk	3
Aviation Hull and Cargo	3
Offshore Energy Physical Damage	3
All Other Property Lines	3

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Source: Annual Market Survey on Captives

# Lines of Business

## | Casualty

Bermuda captives wrote about 60% of all business in casualty lines in 2010, about \$20 billion. Casualty business is listed by business line in Table 6.

The primary casualty lines for 2010 were:

- Workers compensation and employers liability (\$5.9 billion)
- General liability (\$5.4 billion)
- Other professional liability, inclusive of D&O lines (\$5.1 billion)

The sum of professional liability in 2010 was a large increase over past findings and almost triple the amount recorded in 2009.

For the full AMSC findings on casualty lines of business, refer to Annex 3.

**Table 6**  
**Casualty Lines**  
(All Casualty Business = 100%)

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Workers Compensation	29
General Liability	27
Professional Liability (other)	25
Auto Liability	7
Medical Malpractice	4
A&H (General)	4
Aviation Liability	2
All Other Casualty Lines	1
Umbrella	1
Marine Liability	1

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Source: Annual Market Survey on Captives

# Assets

## | Composition

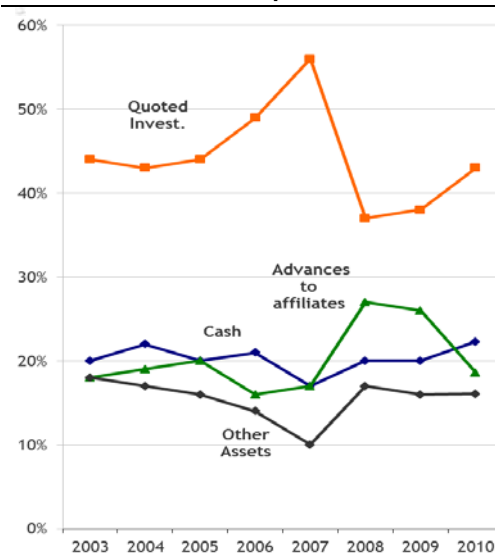
Quoted investments stood at about \$55 billion and represented the largest asset item (see the next section on invested assets for further information). The two other major items were cash (\$30 billion) and investment in and advances to affiliates or intercompany investment/advances (\$24 billion). Other assets included: accounts premiums receivables (\$5 billion) and unquoted investment (\$4 billion). Table 7 shows the full asset composition.

Chart 3 plots the asset composition over the time of the AMSC. The impact of the financial crisis is of especial note. During the onset of the financial crisis in 2007 quoted investment declined dramatically and intercompany investments increased, albeit at a lower rate of change. In 2007 quoted investment accounted for 56% of all assets, up from 37% in 2008.

In 2007 intercompany investment was 17% of all assets; in 2008 it was 27% of all assets. From 2009 to 2010 these positions begin to be reverse, toward their pre-crisis levels.

See Annex 1 for more detail on asset composition.

**Chart 3**  
Trends in Asset Composition



Source: Annual Market Survey on Captives

**Table 7**  
Asset Composition (%)

	2003	2004	2005	2006	2007	2008	2009	2010
Quoted Investment	44	43	44	49	56	37	38	43
Intercompany Investment/Advances	18	19	20	16	17	27	26	19
Cash	20	22	20	21	17	20	20	22
Accounts Premiums Receivables	6	5	5	5	4	6	6	4
Unquoted Investment	4	4	4	3	3	3	2	3
Other Assets	8	8	7	6	3	8	8	9

Source: Annual Market Survey on Captives

# Assets

## | Invested Assets

Bonds represented more than 80% of quoted investments (\$45 billion), with remainder split between equities (\$7 billion) and other funds and investments (\$4 billion) (see Table 8).

Table 9 provides a different representation of the risk appetite of the market on the asset side of the balance sheet, portraying a diverse mixture of positions: 45% of all captives had no equity investment; 12% of the market had a small portion (1-20%) of invested assets in equity and other funds; 10% of the market had a moderate to moderately aggressive position with 21-50% of invested assets in equity and other funds; and about one-third of the market had more than 50% of invested assets installed in equity and other funds.

See Annex 1 for further quoted investment compositions.

**Table 8**  
Quoted Investment  
Composition (%)

Bonds	81
Equities	12
Other Funds and Investments	7

Source: Annual Market Survey on Captives

**Table 9**  
Invested Assets Profile  
(% of market)

No Equity Investment	45
>50% Equity Investment	32
1% - 20% Equity Investment	12
21% - 50% Equity Investment	10

Source: Annual Market Survey on Captives

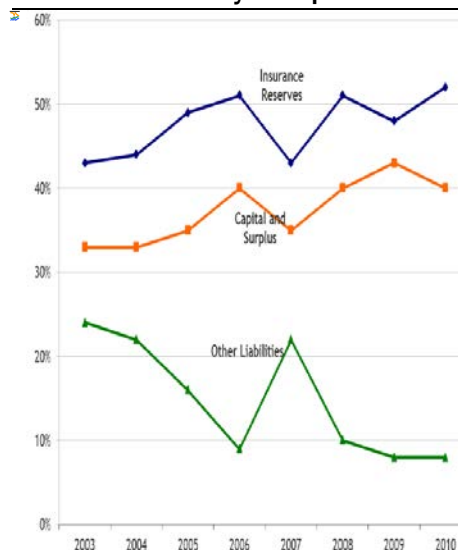
# Liabilities

See Annex 1 for more detail on liability composition.

Given the high levels of insurance reserves and capital and surplus, Bermuda captives have overall strong resources in the event of claims. Insurance reserves (loss and loss expense provision plus unearned premiums) accounted for about half of all liabilities or about \$67 billion in 2010. Capital and Surplus amounted to about \$51 billion. Other liabilities were: insurance and reinsurance balances payable (\$4 billion) and amounts due to affiliates (\$1 billion). Full liability composition is shown in table 10.

Chart 4 shows trends in liability composition over the time of the survey. There is relatively consistent relationship between insurance reserves and capital and surplus. In general, capital and surplus is removed from the market when a reduction in insurance reserves occurs and added to the market when there is an increase in insurance reserves. However, this trend reversed somewhat in 2010.

**Chart 4**  
Trends in Liability Composition



Source: Annual Market Survey on Captives

**Table 10**  
Liability Composition (%)

	2003	2004	2005	2006	2007	2008	2009	2010
Capital and Surplus	33	33	35	40	35	40	43	40
Loss and Loss Expense Provisions	35	36	40	42	37	42	40	46
Unearned Premiums	8	8	9	9	6	9	8	6
Insurance/Reinsurance Balances Payable	4	3	4	3	2	4	3	3
Amounts due to Affiliates	15	15	8	1	16	1	1	1
Other Liabilities	5	4	4	5	4	5	4	4

Source: Annual Market Survey on Captives

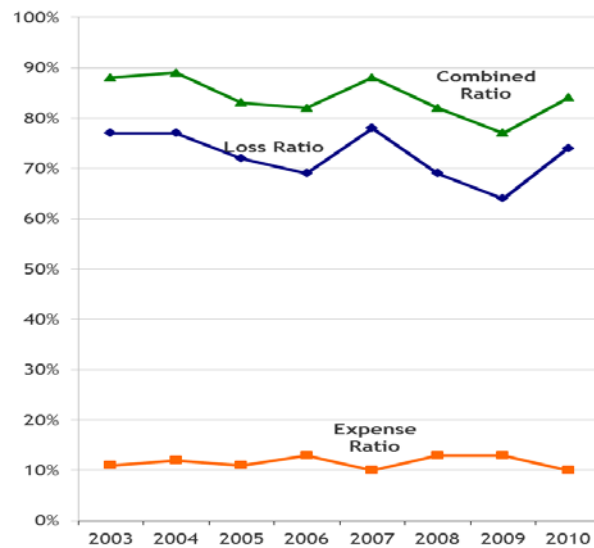
# Profitability Ratios

In 2010, the loss ratio for Bermuda captives increased further from 64% in 2009 to 74%—only one percentage point shy of the 8-year average of 73%.

The expense ratio dropped further to 10% in 2010, the lowest since 2007, and at the very lowest end of the point spread (10%-13%) observed since 2003.

The loss, expense and combined ratios are given in Table 11 and trended in Chart 5.

**Chart 5**  
Trends in Profitability Ratios



**Table 11**  
Loss, Expense and Combined Ratios

	2003	2004	2005	2006	2007	2008	2009	2010
Loss Ratio	77	77	72	69	78	69	64	74
Expense Ratio	11	12	11	13	10	13	13	10
Combined Ratio	88	89	83	82	88	82	77	84

Source: Annual Market Survey on Captives

## Annex I – % Balance Sheet Positions (2010)

	All Captives	Statutory Class <sup>4</sup>			Industry of Parent Company <sup>5</sup>														
		Class 1	Class 2	Class 3	Health Care	Manufacturing	Financial Institutions	Energy	Business Services	Retail	Transportation	Construction	Automotive	Mining, Metal, Forestry	Real Estate	Aviation and Aerospace	Chemicals	Technology and Telecom	
Quoted Investment	43.0	23.5	48.5	43.7	63.1	22.5	19.5	63.9	84.3	48.5	3.2	16.9	62.2	0.0	16.0	0.1	7.8	30.0	
Of Which in:																			
Bonds	81.4	73.4	78.4	90.8	58.6	84.5	96.8	90.2	89.5	98.3	100	98.4	47.9	39.0	90.0	0.0	68.9	100	
Equity	11.8	13.8	13.0	8.4	32.3	11.4	0.0	1.7	10.3	1.5	0.0	1.1	43.7	61.0	10.0	100	31.1	0.0	
Other	6.9	12.7	8.7	0.9	9.1	4.1	3.2	8.1	0.1	0.2	0.0	0.5	8.4	0.0	0.0	0.0	0.0	0.0	
Intercompany Investment/Advances	18.6	38.1	10.9	22.6	4.3	32.9	11.9	10.2	6.3	11.4	49.2	45.5	5.0	60.1	62.1	41.4	51.6	19.2	
Cash	22.3	23.6	23.7	18.6	13.9	24.7	34.9	7.4	4.6	29.7	38.5	22.8	23.4	22.4	12.4	36.8	38.3	37.5	
Accounts Premiums Receivables	4.3	9.3	2.9	4.2	7.5	4.8	1.2	2.7	2.4	7.8	2.7	4.9	0.5	2.6	3.7	13.8	2.2	4.0	
Unquoted Investment	2.6	1.1	4.1	0.3	8.2	11.7	0.0	3.7	0.4	0.0	0.0	3.8	0.2	0.2	0.7	2.7	0.0	0.0	
Other Assets	9.2	4.4	9.9	10.7	3.0	3.4	32.4	12.1	2.0	2.6	6.4	6.2	8.7	14.7	5.1	5.2	0.2	9.3	
<b>Total Assets</b>	<b>100</b>	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
Capital and Surplus	40.3	46.6	36.4	44.5	24.9	39.5	43.6	46.4	40.9	27.6	31.6	31.0	41.5	59.9	30.7	33.7	71.4	51.7	
Loss and Loss Expense Provisions	45.8	40.4	50.9	38.3	64.7	45.5	43.2	39.1	53.3	49.5	59.0	58.3	14.5	31.7	37.6	42.9	25.9	34.2	
Unearned Premiums	5.9	7.4	4.9	7.0	3.0	10.8	1.9	4.1	3.1	12.6	3.4	8.1	35.0	3.6	8.0	3.8	2.2	6.1	
Insurance/Reinsurance Balances Payable	3.1	2.7	3.4	2.7	2.7	1.9	1.4	3.8	0.6	8.9	2.9	1.0	2.3	1.3	2.7	13.3	0.2	4.9	
Amounts due to Affiliates	1.0	1.1	1.1	0.8	2.2	1.1	1.6	0.0	1.6	0.0	1.7	0.7	2.0	0.8	0.1	0.0	0.0	0.7	
Other Liabilities	3.9	1.8	3.3	6.6	2.5	1.2	8.2	6.6	0.5	1.4	1.4	0.9	4.8	2.8	21.0	6.3	0.3	2.4	
<b>Total Liabilities</b>	<b>100</b>	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	

<sup>4</sup> Bermuda employs a tiered insurance classification system: Class 1 captives are single parent companies insuring only the risk of their parent or affiliate(s); Class 2 captive are single parent or multi-owner captives with allowance to insure unrelated risk up to 20% of Net Written Premiums (NWP); Class 3 captives have allowance to insure unrelated risk above the 20% threshold but to greater than 50%.

<sup>5</sup> Industry groupings Power and Utilities, Hospitality and Gaming, Sciences and Public Sector Institutions are excluded due to their small populations in the Bermuda market.

## Annex 2 – % Gross Written Premiums by Property Business Line (2010)

	All Captives	Statutory Class <sup>6</sup>			Industry of Parent Company <sup>7</sup>													
		Class 1	Class 2	Class 3	Health Care	Manufacturing	Financial Institutions	Energy	Business Services	Retail	Transportation	Construction	Automotive	Mining, Metal, Forestry	Real Estate	Aviation and Aerospace	Chemicals	Technology and Telecom
Property Damage and Business Interruption	45.6	77.6	57.4	23.2	92.5	72.9	17.9	71.0	70.9	9.7	5.4	90.2	18.8	94.1	82.1	5.6	79.3	18.6
All Risk to Equipment	29.8	1.7	14.1	54.1	0.3	7.1	40.1	10.0	23.1	0.8	8.0	0.0	46.4	0.0	0.0	0.2	0.0	80.8
Marine Hull and Cargo	8.6	6.7	16.2	3.0	5.2	16.1	3.9	5.9	0.0	13.8	77.6	6.7	1.1	4.8	1.1	0.0	1.2	0.3
Product Warranty	3.7	0.3	0.0	8.2	0.0	1.1	0.0	0.0	0.0	68.2	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Credit Risk	3.4	2.2	2.3	4.7	0.0	0.0	38.0	0.7	0.6	0.1	0.0	0.0	0.1	0.0	0.0	0.0	9.3	0.2
Aviation Hull and Cargo	3.4	8.9	2.7	1.7	0.0	2.0	0.0	0.4	0.0	0.0	8.5	0.0	0.0	0.0	0.4	92.8	0.0	0.0
Offshore Energy Physical Damage	2.9	0.0	4.2	3.0	0.0	0.0	0.0	9.9	0.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Risk to Builders and Contractors	0.9	0.1	2.2	0.2	0.0	0.0	0.0	0.6	0.0	0.0	0.0	3.0	30.5	0.3	0.0	0.0	0.0	0.0
Catastrophe: Wind	0.5	0.0	0.3	0.8	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Auto P D	0.3	0.8	0.2	0.3	2.0	0.0	0.0	0.0	0.0	0.5	0.6	0.1	2.9	0.2	6.6	0.0	0.0	0.0
Terrorism (per risk)	0.3	0.0	0.4	0.3	0.0	0.0	0.1	0.9	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Environmental Risk	0.3	0.6	0.0	0.3	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.2	0.0	10.2	0.0
Crime and Fraud	0.2	0.2	0.1	0.2	0.0	0.0	0.0	0.1	5.4	0.1	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Agriculture	0.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Catastrophe: Terrorism	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0
Catastrophe: Earthquake	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Total Property Business	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

<sup>6</sup> Bermuda employs a tiered insurance classification system: Class 1 captives are single parent companies insuring only the risk of their parent or affiliate(s); Class 2 captive are single parent or multi-owner captives with allowance to insure unrelated risk up to 20% of Net Written Premiums (NWP); Class 3 captives have allowance to insure unrelated risk above the 20% threshold but to greater than 50%.

<sup>7</sup> Industry groupings Power and Utilities, Hospitality and Gaming, Sciences and Public Sector Institutions are excluded due to their small populations in the Bermuda market.

## Annex 3 – % Gross Written Premiums by Casualty Business Line (2010)

	All Captives	Statutory Class <sup>8</sup>			Industry of Parent Company <sup>9</sup>														
		Class 1	Class 2	Class 3	Health Care	Manufacturing	Financial Institutions	Energy	Business Services	Retail	Transportation	Construction	Automotive	Mining, Metal, Forestry	Real Estate	Aviation and Aerospace	Chemicals	Technology and Telecom	
Workers Compensation/Employers Liability	29.2	29.8	20.7	50.0	5.2	50.0	4.8	6.5	14.2	58.6	66.6	18.0	11.4	27.3	15.1	68.0	6.5	65.5	
General Liability	26.8	38.1	26.0	19.5	15.0	37.2	0.1	79.1	6.0	18.7	29.5	65.1	9.3	66.1	76.4	0.2	58.9	21.0	
Professional Liability (other)	25.0	10.4	38.7	3.1	42.6	0.7	92.6	8.7	58.3	5.1	0.0	13.0	2.0	0.0	0.0	0.1	0.8	1.8	
Auto Liability	6.5	3.6	6.3	9.5	0.3	5.2	0.0	0.6	11.1	4.1	0.1	1.9	71.2	3.6	8.3	0.0	2.2	11.6	
Medical Malpractice	3.9	8.9	2.6	2.8	34.8	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	
A&H (General)	3.8	3.5	3.4	5.3	5.0	0.0	2.5	0.6	10.4	10.6	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	
Aviation Liability	1.8	0.5	0.4	6.5	0.0	0.0	0.0	0.5	0.0	0.0	0.7	0.0	0.0	0.0	0.0	31.2	0.0	0.0	
Umbrella	0.8	0.5	0.6	1.7	0.0	1.7	0.0	0.0	0.0	2.0	1.1	0.1	0.8	0.0	0.0	0.1	0.0	-0.1	
Marine Liability	0.8	2.4	0.4	0.4	0.0	0.3	0.0	0.7	0.0	0.2	0.0	0.0	4.0	1.5	0.0	0.0	13.5	0.0	
Life (General)	0.4	1.6	0.1	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.1	1.8	0.3	0.0	0.0	0.0	0.0	0.0	
Products Liability	0.4	0.1	0.5	0.3	-3.0	4.8	0.0	0.0	0.0	0.7	0.0	0.0	0.0	1.4	0.0	0.0	18.1	0.1	
Personal Accident/Travel	0.4	0.0	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.1	0.2	0.0	0.1	
Offshore Energy Liability	0.3	0.6	0.0	0.6	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Total Casualty Business</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	

<sup>8</sup> Bermuda employs a tiered insurance classification system: Class 1 captives are single parent companies insuring only the risk of their parent or affiliate(s); Class 2 captive are single parent or multi-owner captives with allowance to insure unrelated risk up to 20% of Net Written Premiums (NWP); Class 3 captives have allowance to insure unrelated risk above the 20% threshold but to greater than 50%.

<sup>9</sup> Industry groupings Power and Utilities, Hospitality and Gaming, Sciences and Public Sector Institutions are excluded due to their small populations in the Bermuda market.

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