The Bermuda Captive Insurance Market: 2008 Update

The Bermuda Monetary Authority

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Contents

Introduction

This report on the 2008 Bermuda captive insurance market is meant to compliment and update *A Profile of the Bermuda Captive Insurance Market*[1], previously published by the Bermuda Monetary Authority (the Authority), and is the product of the 3rd Annual Market Survey on Captives (AMSC) conducted jointly by the Authority and the Bermuda Insurance Managers Association.

This report is comprised of four parts: the below summary and highlights of the main market results for 2008, the detailed statistical tables that follow, which provide revised 2007 and the new 2008 data, some key market trends from the now 6 years (2003 – 2008) of data supplied by the AMSC, and is concluded with sections on lines of business. Throughout, the survey data has been weighted wherever total or "all" captives data is presented. The weighting adjustment ensures that the AMSC is synchronised to the market for class[2] composition, i.e., the survey sample is corrected for over/under representation by each class. Where data is given by captive class, the result is drawn from the raw survey aggregate for that class.

Summary of the 2008 Market

Market Wrap

GWP up 2% | $19.8 B

Assets down 5% | $84.1 B

The AMSC showed a marginal change in gross written premiums for the market, up about 2% to $19.8 billion after declining in 2007 to $19.4 billion. Again in 2008, Bermuda captives assumed close to one-third ($6.2 billion) of all business written. While the majority of all risk taken on board by Bermuda captives continued to originate from North America (58%), other regions, including the Caribbean and South America and Europe, have become increasingly important to the market during the span of the AMSC.

Bermuda captives wrote almost two-thirds or $12.9 billion of all business in casualty coverage, while property accounted for $6.3 billion and financial and "all other" amounted to $600 million.

On the balance sheet, the AMSC indicated a decline in assets from the record total of $88.8 billion in 2007 to $84.1 billion last year. The change was driven by fall-offs in invested assets, especially in equities, which were down sharply from 2007. Despite a reduction in capital and surplus experienced in 2008, Bermuda captives still maintained healthy capital positions. Statutory capital and surplus was at 86% of loss and loss expenses provisions, many times the regulatory requirement for any captive class. Overall, the capital position in 2008 was comparable to the levels experienced in 2005.

The market recorded an 11% expense and 71% loss ratio. Each of these profitability ratios are within fractional amounts of the six-year average of the AMSC.

[1] The paper may be accessed through the Authority's website (www.bma.bm) or here.

[2] Bermuda employs a three tiered captive insurance classification system: Class 1 captives are single parent companies insuring only the risk of their parent or affiliate(s); Class 2 captives 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% NWP threshold.

Market Statistics - 2008 and 2007

		2008 p				2007 r			
		All	1	2	3	All	1	2	3*
Table 1 Asset Composition	**Asset Category**								
	Cash	19	28	20	12	17	33	15	8
	Quoted Investments	45	30	48	50	56	33	64	56
	of which Bonds	80	82	77	86	80	78	84	72
	of which Equities	13	10	18	6	15	11	13	21
	of which All Other	7	8	6	8	6	11	4	7
	Unquoted Investments	2	1	2	4	3	1	2	4
	Investment in Affiliates	20	33	13	23	17	28	10	21
	Premium Receivables	5	6	5	5	4	5	3	5
	Other Assets	9	2	12	6	3	0	5	5
Table 2 Liability Composition	**Liability Category**								
	Unearned Premiums	7	8	5	9	6	8	4	8
	Loss/Loss Expenses Provisions	43	31	48	44	37	32	37	41
	Re/Insurance Balances Payable	3	3	2	4	2	3	1	2
	Amount due to Affiliates	6	1	12	0	16	1	30	1
	Statutory Capital and Surplus	37	56	32	34	35	55	26	38
	Other Liabilities	4	1	1	9	4	2	2	10
Table 3 GWP by Origin of Underlying Risk Insured	**Region**								
	Europe	13	5	21	10	12	6	16	10
	North America	58	43	54	72	59	40	55	75
	South America & the Caribbean	8	4	9	9	8	3	10	10
	Asia	2	3	1	2	2	3	1	1
	Australia and New Zealand	1	1	0	0	0	1	0	0
	Africa and the Middle East	1	1	0	1	1	1	0	1
	Global	18	43	14	7	19	47	17	3
Key	p Year 2008 data is provisional r Year 2007 data is revised from prior publications * Data is vertically oriented as follows: All = the entire market, 1 = class 1 captives, 2 = class 2 captives, and 3 = class 3 captives								

		2008 p				2007 r			
		All	**1**	**2**	**3**	**All**	**1**	**2**	**3***
Table 4	**Region**								
GWP Assumed by Origin of Underlying Risk Insured	Europe	23	77	23	0	9	59	28	0
	North America	26	25	40	12	52	22	43	14
	South America & the Caribbean	18	23	5	38	4	10	4	29
	Asia	45	13	87	42	2	11	79	47
	Australia and New Zealand	29	10	100	0	0	10	100	0
	Africa and the Middle East	4	2	61	0	0	1	8	0
	Global	59	86	12	30	33	81	8	72
Table 5	**Type of Business**								
Types of Business Written	Property	32	40	29	30	29	34	29	27
	Casualty	65	59	70	63	67	65	70	66
	Financial and Other	3	2	1	7	3	1	1	8
Table 6	**Ratio**								
Profitability Ratios	Combined	82	58	85	96	88	57	101	95
	Loss	71	51	74	80	78	50	92	81
	Expense	11	7	11	16	10	7	9	14

Notes on how to read the tables	1	Major asset classes are assigned a percentile based on their dollar values/total assets. Total Assets = 100%. Quoted investments are separately displayed.
	2	Major liability categories are assigned a percentile based on their dollar values/total liabilities. Total Liabilities = 100%.
	3	GWP is presented by origin (geographical regions and "global") of underlying risk insured. Total GWP = 100%.
	4	GWP assumed (business conducted with the commercial insurance market) is shown as a percentage of total GWP per instance, e.g., reading from the top left of the table, the market assumed 23% of all GWP originating from Europe. The reader should note that these figures may be volatile for regions with relatively small amounts of business such as Africa and the Middle East, Australia and New Zealand and Asia.
	5	GWP is presented by main type of business written. Total GWP = 100%
	6	Ratios are calculated for each instance.

Key	p Year 2008 data is provisional r Year 2007 data is revised from prior publications * Data is vertically oriented as follows: All = the entire market, 1 = class 1 captives, 2 = class 2 captives, and 3 = class 3 captives

Market Trends (2003 – 2008)

Chart 1

Gross Written Premiums

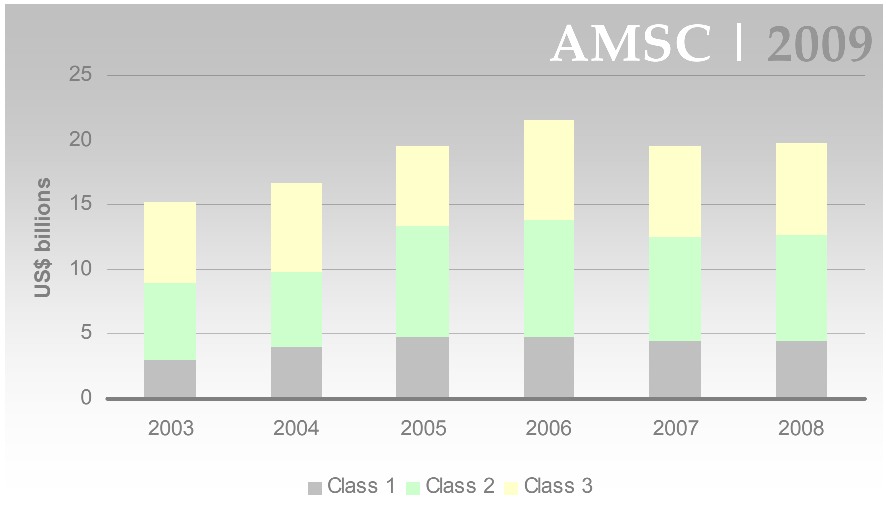


Chart 2

GWP by Origin of Underlying Risk Insured

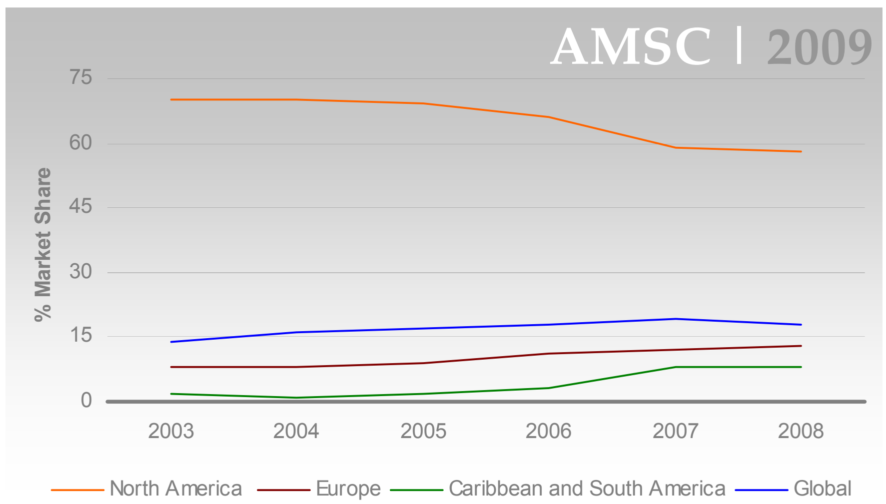


Chart 3

Loss, Expense and Combined Ratios

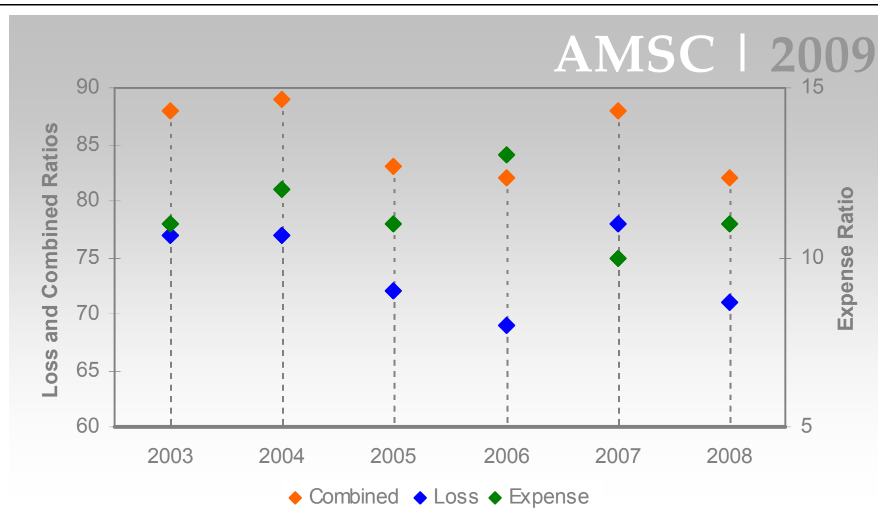


Chart 4

Assets

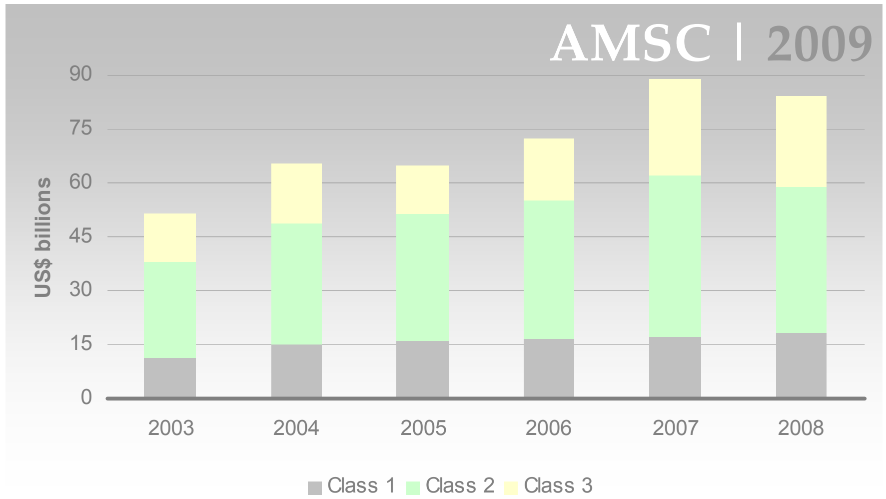


Chart 5

Statutory Capital and Surplus to Loss Reserve Provisions

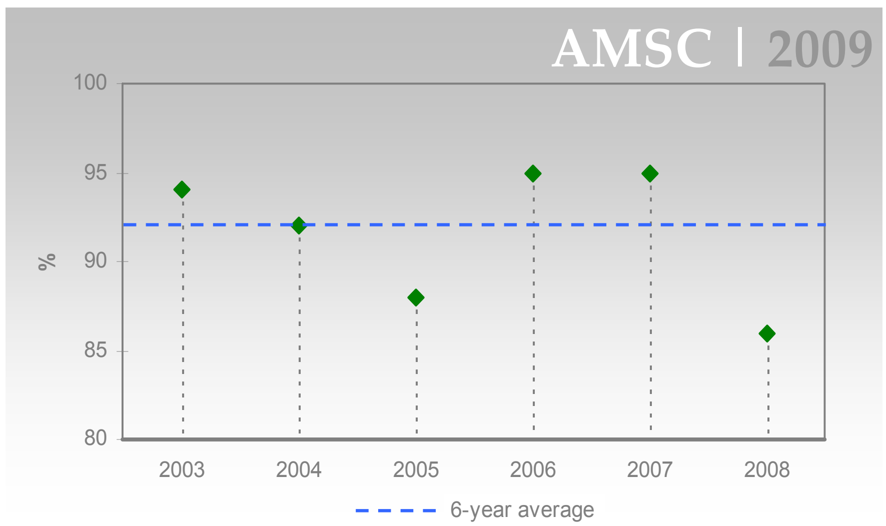
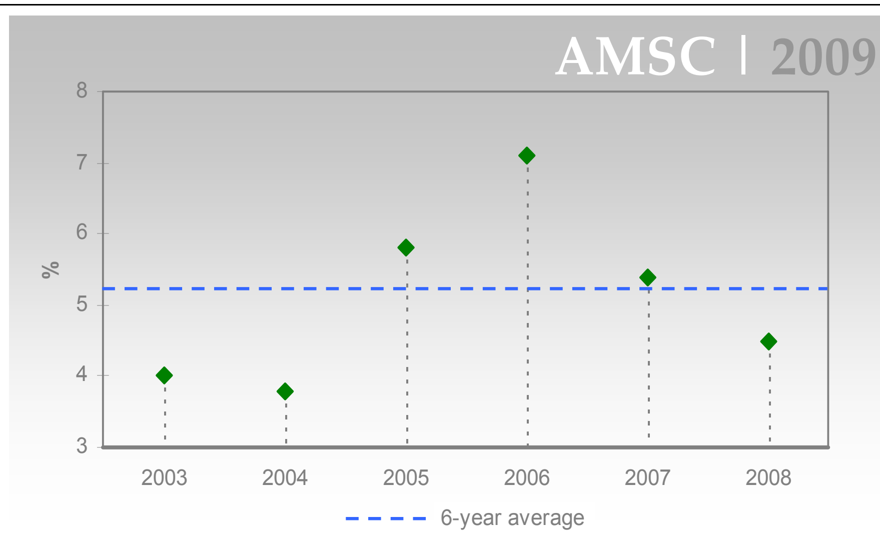


Chart 6

Net Investment Income to Invested Assets



Line of Business Detail – Casualty

Market Total

Casualty Coverage | $12.9 B

Casualty Coverage by Line of Business Total Casualty = 100%				
Line of Business	All Captives	Class 1	Class 2	Class 3
General Liability	31.3	10.6	6.8	12.9
Auto Liability	6.2	0.9	2.3	2.7
Workers Compensation/Employers Liability	29.0	6.0	14.0	8.8
Umbrella	0.5	0.1	0.2	0.1
Medical Malpractice	8.7	2.1	6.2	0.9
Professional Liability (other)	10.7	1.1	8.7	1.4
Products Liability	2.9	1.1	0.3	1.4
Personal Accident/Travel	0.4	Nb	0.3	0.1
Marine Liability	6.6	0.1	6.9	0.1
Aviation Liability	0.3	0.3	<0.0	Nb
Offshore Energy Liability	0.3	Nb	0.3	Nb
Life (General)	2.7	0.4	2.2	0.2
A&H (General)	0.5	<0.0	0.3	0.2
Total	100.0	22.8	48.4	28.8

Note: Due to the weighting of "All Captives" data, the class subtotals for each line of business may not perfectly synchronise with the "All Captives" figure.
*Nb = No business recorded by the AMSC

Line of Business Detail – Property

Market Total

Property Coverage | $6.3 B

Property Coverage by Line of Business Total Property = 100%				
Line of Business	All Captives	Class 1	Class 2	Class 3
Property Damage and Business Interruption	64.4	15.5	24.4	23.0
Auto P D	6.0	0.2	5.6	0.5
Marine Hull and Cargo	11.3	3.4	5.4	2.6
Aviation Hull and Cargo	5.9	5.3	1.1	Nb
Offshore Energy Physical Damage	0.9	1.0	Nb	Nb
Terrorism (per risk)	0.4	0.1	0.3	< 0.0
All Risk to Equipment	3.5	1.2	2.2	0.4
Product Warranty	0.1	< 0.0	< 0.0	0.1
Credit Risk	1.1	0.4	0.7	0.1
Crime and Fraud	0.3	< 0.0	0.0	0.2
All Risk to Builders and Contractors	1.3	0.9	0.5	Nb
Environmental Risk	0.2	< 0.0	< 0.0	0.2
Agriculture	< 0.0	< 0.0	Nb	Nb
Catastrophe: Wind	4.0	3.2	Nb	0.9
Catastrophe: Earthquake	0.4	Nb	< 0.0	0.3
Catastrophe: Terrorism	0.2	0.1	Nb	0.1
Total	100.0	31.3	40.2	28.3

Note: Due to the weighting of "All Captives" data, the class subtotals for each line of business may not perfectly synchronise with the "All Captives" figure.
*Nb = No business recorded by the AMSC

Line of Business Detail – Direct and Assumed Business

Market Totals

Direct Business | $13.6 B

Assumed Business | $6.2 B

Direct and Assumed Business as Percentage Splits per each Line of Business

Line of Business	All Captives		Class 1		Class 2		Class 3	
	D*	A	D	A	D	A	D	A
Property Damage and Business Interruption	75.3	24.7	35.6	64.4	83.9	16.1	88.4	11.6
Auto P D	2.7	97.3	99.0	1.0	0.1	99.9	<0.0	100.0
Marine Hull and Cargo	49.5	50.5	13.1	86.9	54.3	45.7	77.5	22.5
Aviation Hull and Cargo	69.1	30.9	68.9	31.1	70.0	30.0	Nb	Nb
Offshore Energy Physical Damage	88.7	11.3	88.7	11.3	Nb	Nb	Nb	Nb
Terrorism (per risk)	0.5	99.5	<0.0	100.0	<0.0	100.0	100.0	<0.0
All Risk to Equipment	76.3	23.7	96.3	3.7	61.4	38.6	100.0	<0.0
Product Warranty	100.0	<0.0	100.0	<0.0	100.0	<0.0	100.0	<0.0
Credit Risk	36.4	63.6	13.6	86.4	33.5	66.5	100.0	<0.0
Crime and Fraud	94.4	5.6	89.3	10.7	56.5	43.5	100.0	<0.0
All Risk to Builders and Contractors	63.8	36.2	96.4	3.6	2.4	97.6	Nb	Nb
Environmental Risk	92.7	7.3	77.7	22.3	5.6	94.4	98.8	1.2
Agriculture	<0.0	100.0	<0.0	100.0	Nb	Nb	Nb	Nb
Catastrophe: Wind	66.1	33.9	53.4	46.6	Nb	Nb	100.0	<0.0
Catastrophe: Earthquake	100.0	<0.0	Nb	Nb	100.0	<0.0	100.0	<0.0
Catastrophe: Terrorism	100.0	<0.0	100.0	<0.0	Nb	Nb	100.0	<0.0
General Liability	62.0	38.0	17.3	82.7	74.9	25.1	85.3	14.7
Auto Liability	73.6	26.4	88.0	12.0	44.3	55.7	89.7	10.3
Workers Compensation/Employers Liability	81.8	18.2	67.5	32.5	75.3	24.7	96.9	3.1
Umbrella	68.9	31.1	100.0	<0.0	23.4	76.6	95.7	4.3
Medical Malpractice	39.3	60.7	100.0	<0.0	11.2	88.8	88.5	11.5
Professional Liability (other)	93.0	7.0	91.5	8.5	92.9	7.1	94.2	5.8
Products Liability	94.4	5.6	95.9	4.1	66.8	33.2	98.0	2.0
Personal Accident/Travel	94.1	5.9	Nb	Nb	94.2	5.8	93.7	6.3
Marine Liability	98.8	1.2	100.0	<0.0	99.1	0.9	77.3	22.7
Aviation Liability	13.8	86.2	12.3	87.7	100.0	<0.0	Nb	Nb
Offshore Energy Liability	4.4	95.6	Nb	Nb	4.4	95.6	Nb	Nb
Life (General)	76.1	23.9	18.8	81.2	97.6	2.4	<0.0	100.0
A&H (General)	63.4	36.6	105.7	-5.7	25.2	74.8	100.0	<0.0
Financial and All Other	22.5	77.5	48.5	51.5	43.8	56.2	10.8	89.2

*D = Direct Business; A = Assumed Business; Nb = No business recorded by the AMSC

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