



Overview of Bermuda Insurance Regulations

Limited Purpose Insurers (“LPI” or “Captives”)

January 2019

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Overview of reporting landscape

Overview of reporting landscape

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

Five basic classes of captive insurance licenses:

Class	Description
Class 1 (General Business)	Company is a single parent captive or an affiliate of a group insuring/reinsuring risks or parent or affiliate only.
Class 2 (General Business)	Owned by two or more unrelated persons and writing their risks or the risk of their affiliates or insuring risks which the BMA approves as arising out of the business of its owners and single parent captives writing up to 20% unrelated business.
Class 3 (General Business)	Where company insures/reinsures more than 20% but less than 50% unrelated business.
Class A (Long Term Business)	Wholly owned by one person and intends to carry on long-term business consisting only of insuring the risks of that person; or is an affiliate of a group and intends to carry on long-term business consisting only of insuring the risks of any other affiliates of that group or of its own shareholders.
Class B (Long Term Business)	Wholly owned by two or more unrelated persons and intends to carry on long-term business not less than 80% of the premiums and other considerations written in respect of which will be written for the purpose of insuring the risks of any of those persons or of any affiliates of any of those persons; or insuring risks which, in the opinion of the Authority, arise out of the business or operations of those persons or any affiliates of any of those persons.

Filing requirements

Filing Requirements

Annually, 6 months after financial year end, captives are required to file Electronic Statutory Financial Return (E-SFR). This includes:

- Company Information Form
- Statement of Control Form
- Statutory Financial Statements (Audited)
 - Form 1A/4 – Statutory Balance Sheet
 - Form 2A/5 - Statutory Income Statement
 - Form 8 – Statutory Statements of Capital & Surplus
 - Notes to the Statutory Financial Statements
- Auditors Report
- Loss Reserve Certificate / Actuarial Certificate, if required
- Alternative Capital Schedule (General Business)
- Anti-Money Laundering Return (Long Term Business)
- Own Risk Assessment (includes Risk Register, Risk Appetite, and Investment Guidelines)
- Schedule I – Schedule of Underwriting Analysis
- Schedule II – Schedule of Segregated Accounts, if applicable
- Solvency Page
- Annual Statutory Declaration

Bermuda Statutory Accounting vs. U.S. GAAP/IFRS

The typical differences between Statutory Accounting and U.S. GAAP/IFRS are as follows:

Item	Measurement for Statutory
Goodwill	Not Admitted
Prepaid and deferred expenses	Not Admitted
Intangible assets	Not Admitted
Deferred tax asset	Not Admitted
Letters of credits or guarantees that encumber insurers assets	100% of nominal value

Classes of Insurers – General Requirements for Limited Purpose Insurers (Class 1,2,3,A & B)

	Class 1	Class 2	Class 3	Class A	Class B
Minimum paid up share capital	\$120,000	\$120,000	\$120,000	\$120,000	\$250,000
Reduction of statutory capital	BMA approval prior to any reduction by 15% or more of its total statutory capital as shown in the previous years statutory financial statements				
Minimum capital & surplus	\$120,000	\$250,000	\$1,000,000	\$120,000	\$250,000
Dividend restriction	Comply with solvency/liquidity requirements at all times			Comply with solvency requirements at all times	
Loss Reserve Specialist Opinions (LRSO) / Actuarial Opinion:	Not required to file LRSO unless discounting the loss and loss expense provisions and does not meet the solvency requirements on undiscounted basis OR greater than 30% written professional liability, otherwise required to file LRSO annually.	Required to file an LRSO every 3 years unless discounts the loss and loss expense provisions and does not meet the solvency requirements on undiscounted basis OR greater than 30% written professional liability, otherwise required to file LRSO annually.	Required to file an LRSO annually.	Actuarial Opinion	Actuarial Opinion

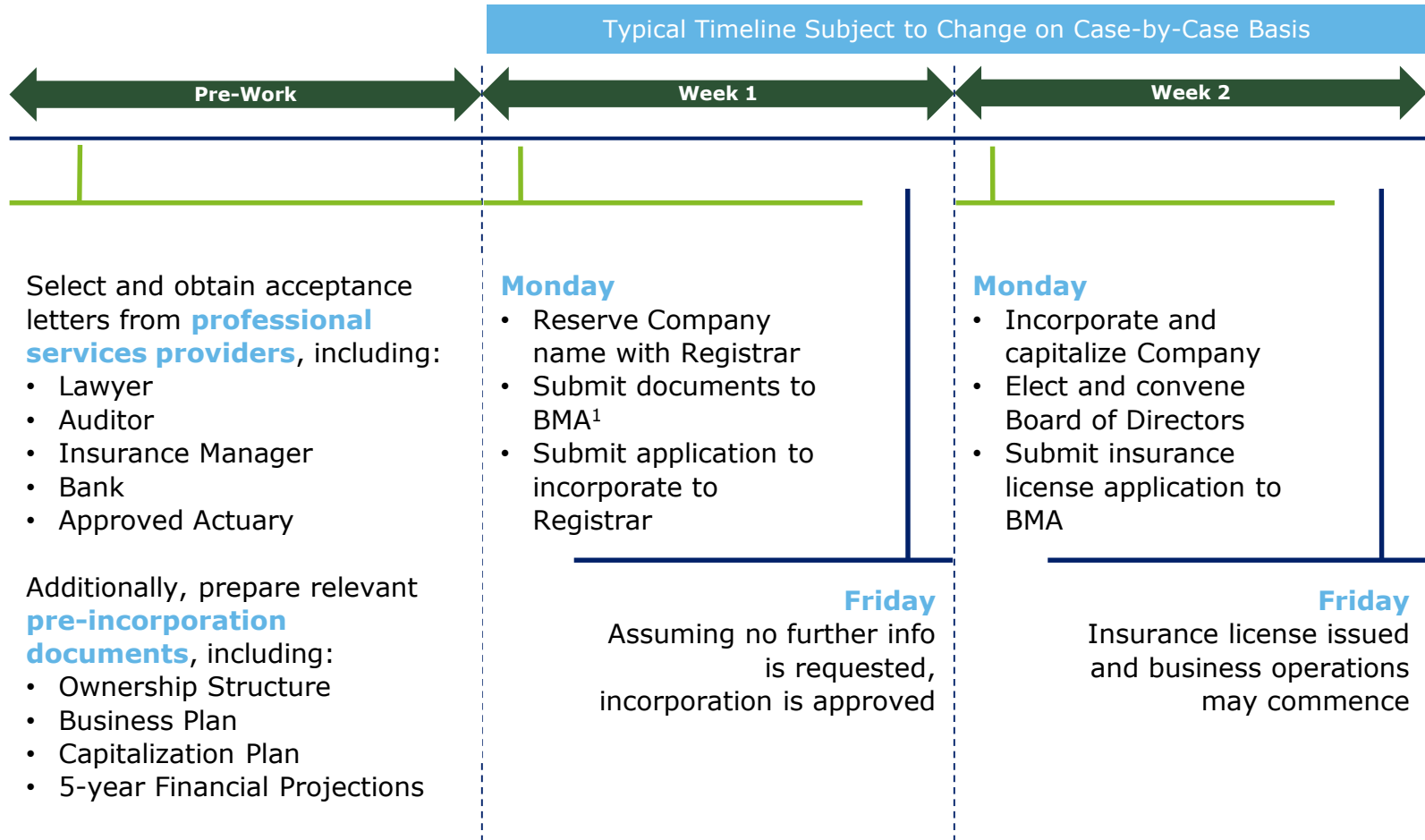
Classes of Insurers – Solvency & Liquidity for Limited Purpose Insurers (Class 1,2,3,A & B)

	Class 1	Class 2	Class 3	Class A	Class B
Minimum solvency margin Minimum	<p>MUST BE MET AT ALL TIMES</p> <p>Greater of:</p> <ul style="list-style-type: none"> \$120,000 capital & surplus <p>Or</p> <p>Net Premiums Written (npw) test:</p> <ul style="list-style-type: none"> 20% of first \$6m npw plus 10% of amounts in excess of \$6m <p>Or</p> <ul style="list-style-type: none"> 10% of loss reserves 	<p>MUST BE MET AT ALL TIMES</p> <p>Greater of:</p> <ul style="list-style-type: none"> \$250,000 capital & surplus <p>Or</p> <p>Net Premiums Written (npw) test:</p> <ul style="list-style-type: none"> 20% of first \$6m npw plus 10% of amounts in excess of \$6m <p>Or</p> <ul style="list-style-type: none"> 10% of loss reserves 	<p>MUST BE MET AT ALL TIMES</p> <p>Greater of:</p> <ul style="list-style-type: none"> \$1,000,000 capital & surplus <p>Or</p> <p>Net Premiums Written (npw) test:</p> <ul style="list-style-type: none"> 20% of first \$6m npw plus 15% of amounts in excess of \$6m <p>Or</p> <ul style="list-style-type: none"> 15% of loss reserves 	<p>MUST BE MET AT ALL TIMES</p> <p>Greater of:</p> <ul style="list-style-type: none"> \$120,000 <p>Or</p> <ul style="list-style-type: none"> 0.5% of assets <p>** where assets shall be the total assets reported on an insurer's balance sheet in the relevant year less the amount held in a segregated account.</p>	<p>MUST BE MET AT ALL TIMES</p> <p>Greater of:</p> <ul style="list-style-type: none"> \$250,000 <p>Or</p> <ul style="list-style-type: none"> 1% of assets <p>** where assets shall be the total assets reported on an insurer's balance sheet in the relevant year less the amount held in a segregated account.</p>
Where solvency test is failed	Principal Representative must report to the BMA within 30 days		Principal Representative must notify the BMA; pay no dividends until position rectified; file revised business plan within 30 days	Principal Representative must report to the BMA within 30 days	
Liquidity ratio	Relevant assets must equal at least 75% of relevant liabilities			n/a	

Setting up a captive

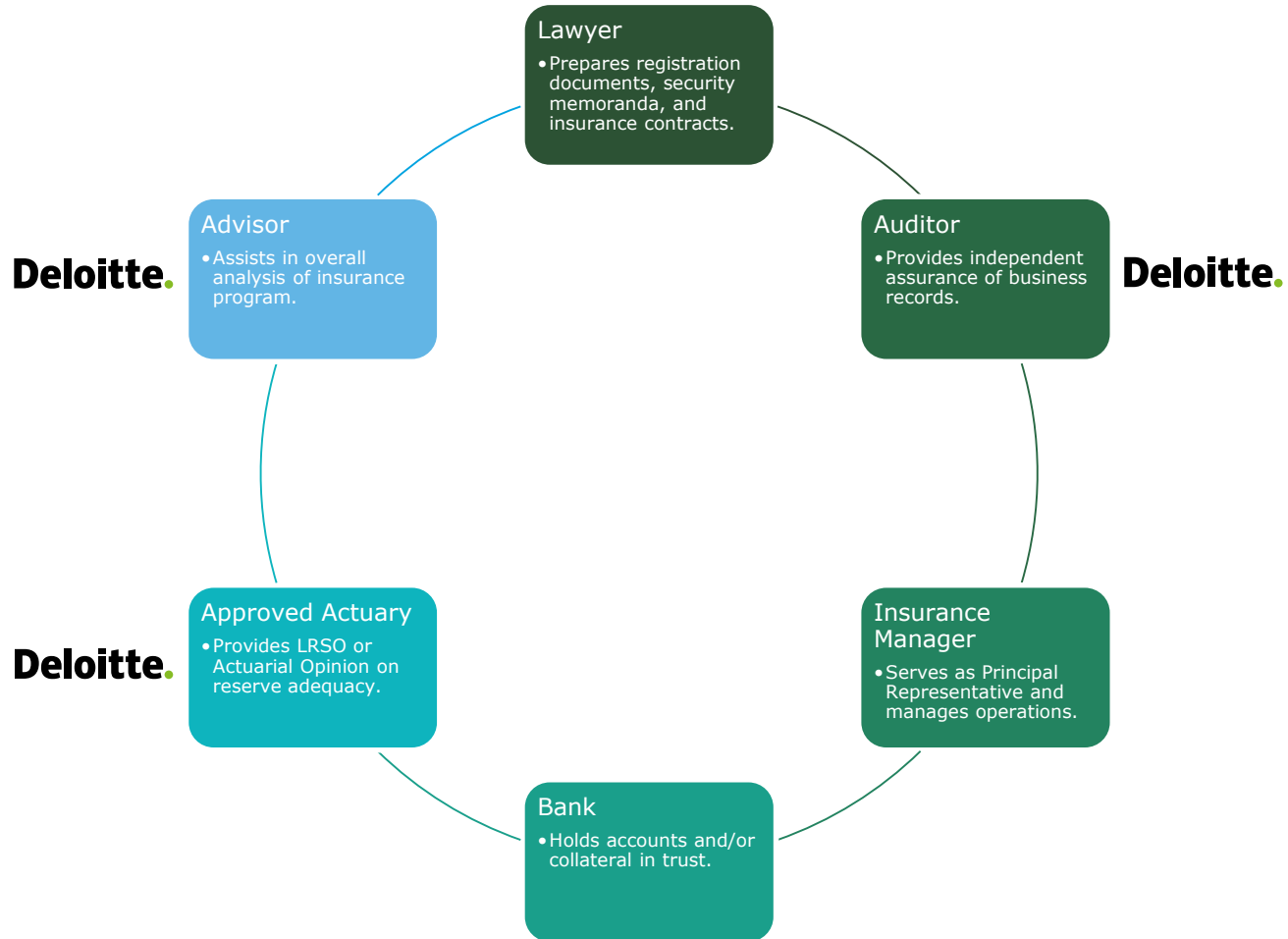
Incorporation Timeline

Bermuda has a short lead-time to establish a captive. A company can generally be registered in the same week an application is submitted. Following this, the BMA's Insurance Licensing and Authorization Committee (ILAC) will meet weekly to approve license applications.



¹Bermuda Monetary Authority

Professional Service Providers



Pre-Incorporation Documents

Ownership Structure

- Describe intermediate and ultimate beneficial owners of the proposed company
- Submit latest audited financial statements where proposed owners are corporate bodies
- Identify provisional directors and officers

Business Plan

- Describe type of business being assumed
- Identify desired class of registration
- Describe intended reinsurance program, if applicable
- Identify and request any exceptions or modifications under Section 56 of the Act (e.g. parent company loan to be considered a relevant asset for liquidity margin calculation)
- Identify professional service providers

Capitalization Plan

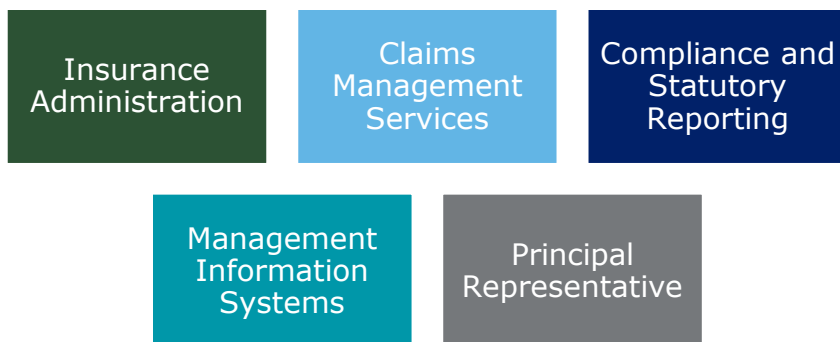
- Describe proposed level of capitalization and contributed surplus
- Identify investors (to evidence sophistication) and funding mechanism (to evidence full collateralization), in the case of an SPI
- Provide, if applicable, collateral trust agreement and any offering documents

Financial Projections

- Prepare 5-year pro-forma financial projections

Ongoing Management

In order to appropriately manage day-to-day operations of the Insurer, it is required to appoint a local Principal Representative to assume responsibility for the Insurer's legal standing. This role is commonly initially assumed by the Insurance Manager, who additionally provides services relating to general administration and information management.



Additionally, the elected Board of Directors will be responsible for the regular organization of the Insurer, including establishing certain management policies. These responsibilities are described on the next slide.

Organization

Upon incorporation of the company, the provisional directors must convene the 'statutory meeting', which is essentially the first annual general meeting of shareholders. The ongoing responsibilities of the company's directorship is outlined below:

At the Statutory Meeting (and First Board Meeting)

- Confirm bylaws
- Elect Board of Directors
- Officially appoint auditors
- Elect company officers
- Appoint other professional service providers

At Subsequent Annual General Meetings

- Renew or reappoint directors, officers, and service providers
- Establish management policies with respect to investment, dividend, accounting, and all other relevant business operations
- Present and sign audited financial statements

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