Overview of Bermuda Insurance Regulations
Limited Purpose Insurers ("LPI" or "Captives")
January 2019
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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:

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 (General Business)</td>
<td>Company is a single parent captive or an affiliate of a group insuring/reinsuring risks or parent or affiliate only.</td>
</tr>
<tr>
<td>Class 2 (General Business)</td>
<td>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.</td>
</tr>
<tr>
<td>Class 3 (General Business)</td>
<td>Where company insures/reinsures more than 20% but less than 50% unrelated business.</td>
</tr>
<tr>
<td>Class A (Long Term Business)</td>
<td>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.</td>
</tr>
<tr>
<td>Class B (Long Term Business)</td>
<td>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.</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>Item</th>
<th>Measurement for Statutory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>Not Admitted</td>
</tr>
<tr>
<td>Prepaid and deferred expenses</td>
<td>Not Admitted</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>Not Admitted</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>Not Admitted</td>
</tr>
<tr>
<td>Letters of credits or guarantees that encumber insurers assets</td>
<td>100% of nominal value</td>
</tr>
</tbody>
</table>

Letters of credits or guarantees that encumber insurers assets encumber insurers assets to the extent of 100% of their nominal value.
### Classes of Insurers – General Requirements for Limited Purpose Insurers (Class 1, 2, 3, A & B)

<table>
<thead>
<tr>
<th></th>
<th>Class 1</th>
<th>Class 2</th>
<th>Class 3</th>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum paid up share capital</strong></td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$250,000</td>
</tr>
<tr>
<td><strong>Reduction of statutory capital</strong></td>
<td>BMA approval prior to any reduction by 15% or more of its total statutory capital as shown in the previous years statutory financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Minimum capital &amp; surplus</strong></td>
<td>$120,000</td>
<td>$250,000</td>
<td>$1,000,000</td>
<td>$120,000</td>
<td>$250,000</td>
</tr>
<tr>
<td><strong>Dividend restriction</strong></td>
<td>Comply with solvency/liquidity requirements at all times</td>
<td>Comply with solvency requirements at all times</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loss Reserve Specialist Opinions (LRSO) / Actuarial Opinion:</strong></td>
<td>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.</td>
<td>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.</td>
<td>Required to file an LRSO annually.</td>
<td>Actuarial Opinion</td>
<td>Actuarial Opinion</td>
</tr>
</tbody>
</table>
## Classes of Insurers – Solvency & Liquidity for Limited Purpose Insurers (Class 1,2,3,A & B)

<table>
<thead>
<tr>
<th>Minimum solvency margin Minimum</th>
<th>Class 1</th>
<th>Class 2</th>
<th>Class 3</th>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater of: $120,000 capital &amp; surplus Or Net Premiums Written (npw) test: • 20% of first $6m npw plus • 10% of amounts in excess of $6m Or • 10% of loss reserves</td>
<td>MUST BE MET AT ALL TIMES</td>
<td>MUST BE MET AT ALL TIMES</td>
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<td>MUST BE MET AT ALL TIMES</td>
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</tr>
<tr>
<td>Greater of: $250,000 capital &amp; surplus Or Net Premiums Written (npw) test: • 20% of first $6m npw plus • 10% of amounts in excess of $6m Or • 10% of loss reserves</td>
<td>Greater of: $1,000,000 capital &amp; surplus Or Net Premiums Written (npw) test: • 20% of first $6m npw plus • 10% of amounts in excess of $6m Or • 10% of loss reserves</td>
<td>Greater of: $120,000 Or 0.5% of assets Or 1% of assets</td>
<td>** 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.</td>
<td>** 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.</td>
<td></td>
</tr>
</tbody>
</table>

### 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.

**Typical Timeline Subject to Change on Case-by-Case Basis**

**Pre-Work**

Select and obtain acceptance letters from **professional services providers**, including:

- Lawyer
- Auditor
- Insurance Manager
- Bank
- Approved Actuary

Additionally, prepare relevant **pre-incorporation documents**, including:

- Ownership Structure
- Business Plan
- Capitalization Plan
- 5-year Financial Projections

**Week 1**

**Monday**

- Reserve Company name with Registrar
- Submit documents to BMA¹
- Submit application to incorporate to Registrar

**Friday**

Assuming no further info is requested, incorporation is approved

**Week 2**

**Monday**

- Incorporate and capitalize Company
- Elect and convene Board of Directors
- Submit insurance license application to BMA

**Friday**

Insurance license issued and business operations may commence

¹Bermuda Monetary Authority
Professional Service Providers

- **Lawyer**
  - Prepares registration documents, security memoranda, and insurance contracts.

- **Auditor**
  - Provides independent assurance of business records.

- **Insurance Manager**
  - Serves as Principal Representative and manages operations.

- **Bank**
  - Holds accounts and/or collateral in trust.

- **Approved Actuary**
  - Provides LRSO or Actuarial Opinion on reserve adequacy.

- **Advisor**
  - Assists in overall analysis of insurance program.
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
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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