

Captive Insurance

AN OVERVIEW



BUSINESS DEVELOPMENT AGENCY
BERMUDA



WHAT IS A CAPTIVE?

Captives form an essential part of the risk-management strategy of many businesses. Captives come in many shapes and sizes, from small single parent captives that write the risks solely of a parent, through to large captives writing multi-line business for both owners and third parties.

It is a common misconception that to justify a captive, you need to be a huge global player. Even if your annual commercial insurance premium is only \$1million, you should consider whether a captive might benefit your organisation.

THE CAPTIVE INDUSTRY IN BERMUDA

The captive industry was born, raised and perfected in Bermuda — and we continue to build on that success as the industry grows and evolves. Having formed the first modern captive in 1962, Bermuda remains the world's leading captive jurisdiction with gross written premiums of approximately \$40 billion.

The United States is the largest source of captive business for Bermuda, followed by Canada, with increasing registrations from Latin America, Asia, Europe and Africa. There is not any one predominant line of business being written by captives in Bermuda but rather a variety of property, casualty and long-term business types. 2020 also saw the world's first captive to insure crypto custody set up on island.

The benefits a captive can bring to an organisation are numerous. The top five benefits, according to captive owners, are:

1. SHARE IN THE UNDERWRITING PROFITS

A portion of every dollar a company spends in the commercial insurance market is profit for the insurer. A captive retains this profit within the group. Organisations with an effective risk-management framework tend to have below-average loss experience, enabling the group to retain the underwriting profit without it being depleted by the losses of others.

2. SELF-INSURE HIGH-COST RISKS

A captive is a risk-transfer vehicle dedicated to your organisation. As a result, it can cater for risks for which external insurance available in the commercial market would be cost-prohibitive.

3. ACCESS REINSURANCE MARKETS

Being a licensed insurer, your captive will benefit from access to reinsurance markets, providing additional and potentially lower cost capacity. The captive can also save other frictional costs and reduce premium taxes.

4. FOCUSED RISK-MANAGEMENT FRAMEWORK

A captive is an excellent way to increase and centralise the awareness and effectiveness of your organisation's risk-management activities. Should you suffer a loss, you can remain in control throughout the claim process, a benefit that can significantly reduce the ultimate cost of claims.

5. SMOOTH MARKET CYCLES

The commercial insurance market moves from being "soft" (low premium rates) to "hard" (high premium rates) when there are changes in the supply and demand of insurance capacity. Owning a captive is a long-term strategy that can smooth the cycle into a predictable spend by avoiding your exposure to potentially material increases in premium.

Other benefits include, but are not limited to:

- Enhanced control over owner's risks
- Income generated from reserves
- Funding of risks that would otherwise be uninsurable
- Potentially improved long-term cash flow
- Capital efficiency



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WHY BERMUDA?

Bermuda has long been an exceptional destination in which to live, work and play. The island's safe, secure and sophisticated lifestyle is perfect for families, while global businesses and investors value Bermuda for its political stability, its robust and transparent regulatory environment and its efficient capital regime.

Underpinned by a 400-year-old English common law legal system, Bermuda's pro-business culture, sophisticated infrastructure and convenient geographical location (being only a 90-minute direct flight from New York and six hours from London) has seen the island develop into a blue-chip jurisdiction in the world of international commerce and investment for the last 70 years.

The nimble, strategic and open-minded approach of the island's government and regulators allows the island to adapt quickly to the needs of business, maintaining Bermuda's relevance in an era of fast-paced political, socio-economic and technological change. The strength of Bermuda's response to COVID-19 has meant the jurisdiction remained open for business throughout and is welcoming international visitors.

Bermuda is the best base for you and your business:

1. Bermuda is safe, secure and stable
2. Bermuda is a blue-chip jurisdiction
3. Bermuda is open, accessible and business-friendly
4. Bermuda is globally connected
5. People love Bermuda's sophisticated island lifestyle, including its quality education and top-tier healthcare services

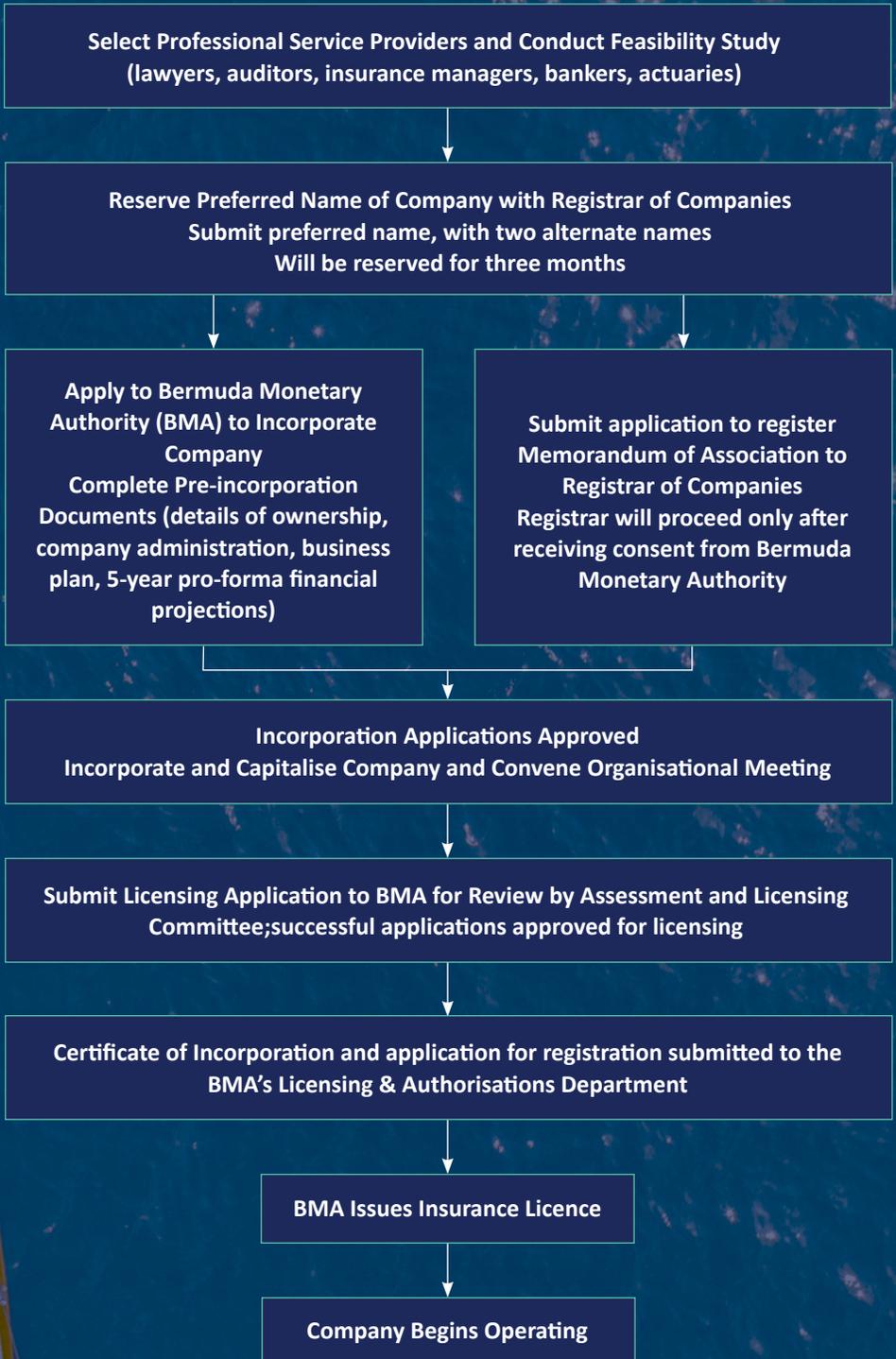


How we Live, Work and Play.
See what makes Bermuda such an exceptional place to do business.

Find out more at www.bda.bm.

HOW TO SET UP A CAPTIVE

The following represents the procedure involved in the incorporation and registration process for commercial and captive insurance companies:



FOR MORE INFORMATION, PLEASE CONTACT:

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