

# ***The Association of Bermuda Insurers and Reinsurers***

**John M. Huff**

June 2019

***Casualty Actuarial Society:  
Seminar on Reinsurance***



## About ABIR



- **25** years of collective advocacy & education
- The Original Disruptor – post Hurricane Andrew
- Members employ **117,000** worldwide
  - 47,500 in US
  - 16,800 in EU and UK
- Member aggregate global capital of **\$122bn**
- Members wrote **\$97bn** global Gross Written Premium

# About Bermuda Market

Generate income from 150 countries

Bermuda includes 14 of world's top 40 reinsurers

Bermuda wrote 13% of aggregate global reinsurance premium

## ABIR Members – Bermuda's Leading Insurers & Reinsurers



ARMOUR



ASSURED  
GUARANTY®



CHUBB®

ENSTAR

FIDELIS



HISCOX

lancashire

MS Amlin

PartnerRe



RenaissanceRe

Sirius  
Bermuda

THIRD POINT RE

VALIDUS RE



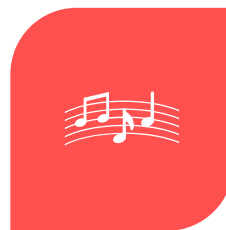
# Summary for Discussion Today



THE BERMUDA  
LANDSCAPE



RECENT REGULATORY  
DEVELOPMENTS



PERFORMANCE



NEW PRODUCTS AND  
EMERGING RISKS

# 1 - The Bermuda Landscape

- Historical Strength
- M&A is in Bermuda DNA
- Alternative Capacity – Partner Capital
- Run-Off Specialists – Growth
- Recruiting Talent
- Outlook for 2019 and Beyond

## 1.1 - Historical Strength

- 40 years ago, emerged as the leader in the development and regulation of captive insurers;
- Today, home / underwriting operations 30+ major international insurers and reinsurers
- World-class regulatory framework designed to meet international standards
- **Today largest supplier of catastrophe reinsurance to US insurers – \$208+ Billion in claims payment over last 20 years**

## 1.2 - M&A is in Bermuda DNA

- AXA acquisition of XL in 2018 for \$15.3bn
- AIG acquisition of Validus in 2018 for \$5.6bn
- MMC acquisition of JLT in 2018 for \$5.7bn
- RenaissanceRe acquisition of Tokio Millennium Re in 2019 for \$1.5bn
- Axis purchase of Novae for \$500mn



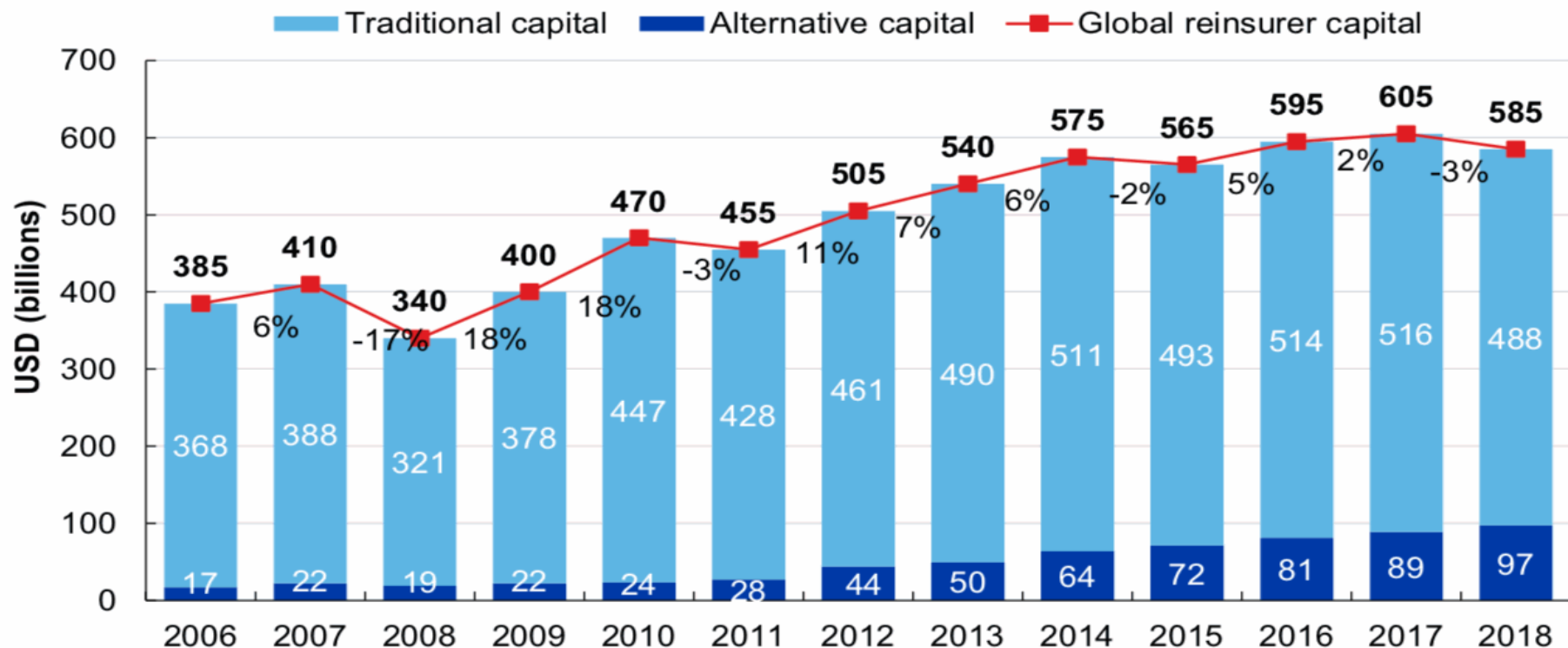
Tokio Millennium Re





# 1.3 – Global Capacity, think Partner Capital

- Alternative Capital At \$97bn in 2018



Sources: Company financial statements, Aon Business Intelligence, and Aon Securities Inc.

# 1.4 - Run-Off Specialists - Growth

Premia created in Bermuda with \$500mn capital in 2017 – largest startup (re)insurer dedicated solely to run-off, supported by Arch Capital



Run-off is a viable reinsurance niche market -- currently underserved



Other established run-off insurers are Fortitude Re (AIG); Enstar, Armour and Catalina



Factors are combining to drive further growth in the run-off/legacy market.

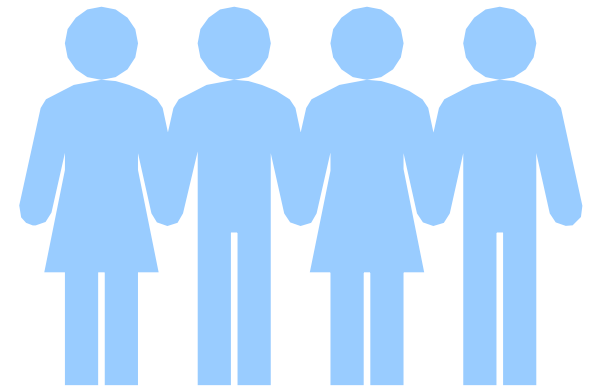
Capital efficiency becoming more important

Solution to the drag run-off operations can have on returns

Non-core business in M&A will likely be sold or reinsured

## 1.5 - Recruiting Talent

- ABIR members employed nearly 1,500 full-time Bermuda staff in 2017
- ABIR members provided 55 intern positions in 2017
- Nearly 70% of ABIR member teams are Bermudian or married to a Bermudian:
- **Professional Development investment is paying dividends**



## 1.6 - Outlook for 2019 and Beyond

- EU Non-Cooperative Tax Jurisdictions; Bermuda Success
  - On May 17, 2019 Bermuda removed from EU Non-Cooperative Jurisdiction Listing
  - Bermuda's Economic Substance Act 2018
  - Aligned Bermuda's statutory and regulatory framework with Bermuda's prevailing world-class business practices and emerging global standards

## 1.6 - Outlook for 2019 and Beyond

- Start-ups: Affirms Bermuda's Startup Tradition
  - Covex Group, \$1.8B Investment Capital
    - LARGEST IN INSURANCE HISTORY
  - Formed by Stephen Catlin and Paul Brand
  - Will underwrite complex specialty risks from Bermuda and London
  - Conservative investment strategy

## 1.6 - Outlook for 2019 and Beyond

- Start-ups: Affirms Bermuda's Startup Tradition
  - May 7, 2019
  - Ryan Specialty Group (RSG) has teamed up with insurance and financial services provider Nationwide to launch a new reinsurance company based in Bermuda, Geneva Re

## 2 - Recent Regulatory Developments

Solvency II – Ripe for Reform

A large blue downward-pointing arrow indicating a flow from the top box to the middle box.

NAIC Credit for Reinsurance Reform  
Move to zero regulatory collateral

A large teal downward-pointing arrow indicating a flow from the middle box to the bottom box.

Responding to U.S. Tax Reform

## 2.1 - Solvency II

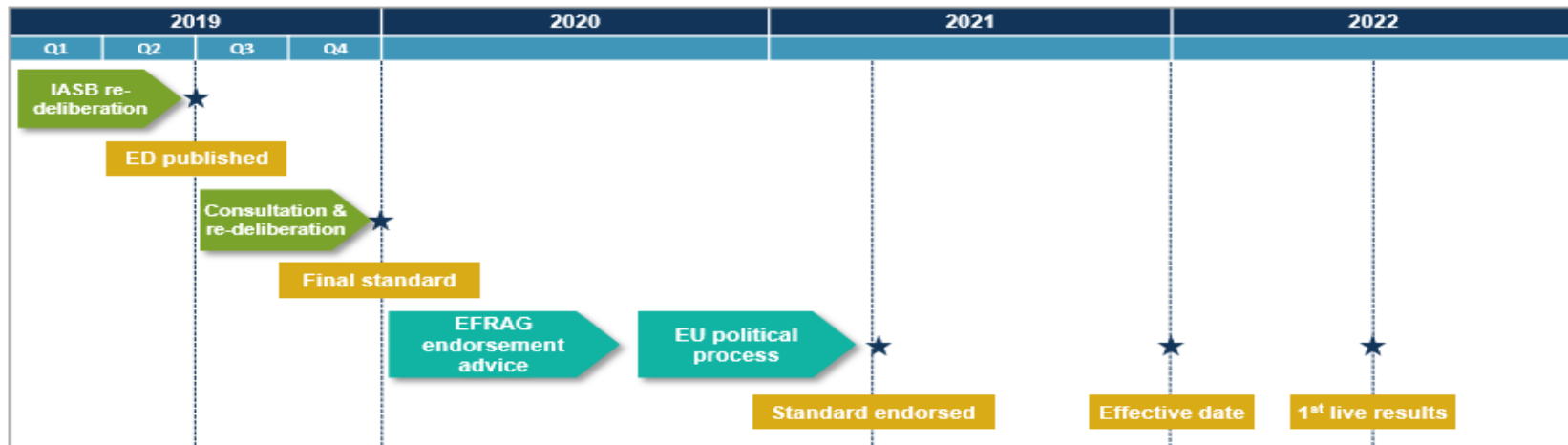
- EU Commission requested EIOPA to review the Solvency II Directive by June 30 2020
- EIOPA is expected to issue consultation in 2019 on the following areas
  - the last liquid point underlying risk-free term structure of interest rate for various currencies;
  - the cost of capital rate for the risk margin;
  - the reassessment of supervisory convergence; and
  - a review of the long-term guarantee measures.
- The BMA are currently monitoring:
  - Risk-free interest rate term structure – last liquid point in the yield curve;
  - Volatility adjustment – weight of assets;
  - Risk margin – cost-of-capital



## 2.2 - IFRS 17

- IFRS 17 has been delayed by a year
- Currently revisions are being considered by the IASB
- Entities would be required to apply IFRS 17 for annual periods beginning on or after January 1, 2022
- Market currently has completed impact assessments
- Majority of entities have temporarily postponed implementation

### Expected timeline to go-live for IFRS 17



Key: ■ IASB process ■ EU endorsement process

## 2.3 - Reduce Collateral Requirements

- The Credit for Reinsurance Model Law and Regulation was voted and Approved at the NAIC Reinsurance Task Force meeting in May 2019
- These changes incorporated the covered agreements and allowed for qualified jurisdictions (Bermuda, Switzerland, and Japan) to receive equal collateral requirements as those under covered agreements.

## 2.4 - Taxes: Restricting and Responding to U.S. Tax Reform

- International risk diversification challenge
- Limited impact to Bermuda market financials
- Regulatory guidance in-process
- Discontinued use of Affiliated Reinsurance has resulted in some structural changes – company specific arrangements

## **3 - Performance (Long Term average vs Recent Years)**

- Best / Worst Performing Sectors
- Pricing Cycle
- Reserving Position
- Investment Income
- Changes to Terms and Conditions

## 3.1 - Best / Worst Performing Sectors

- ABIR members had Q1 2019 strong growth in:
  - Specialty lines
    - Marine
    - Political risk
    - Energy
    - Mortgage
  - Professional lines
  - US retail
- ABIR members saw some decreases in Q1 2019:
  - Motor
  - Credit and surety
  - London wholesale

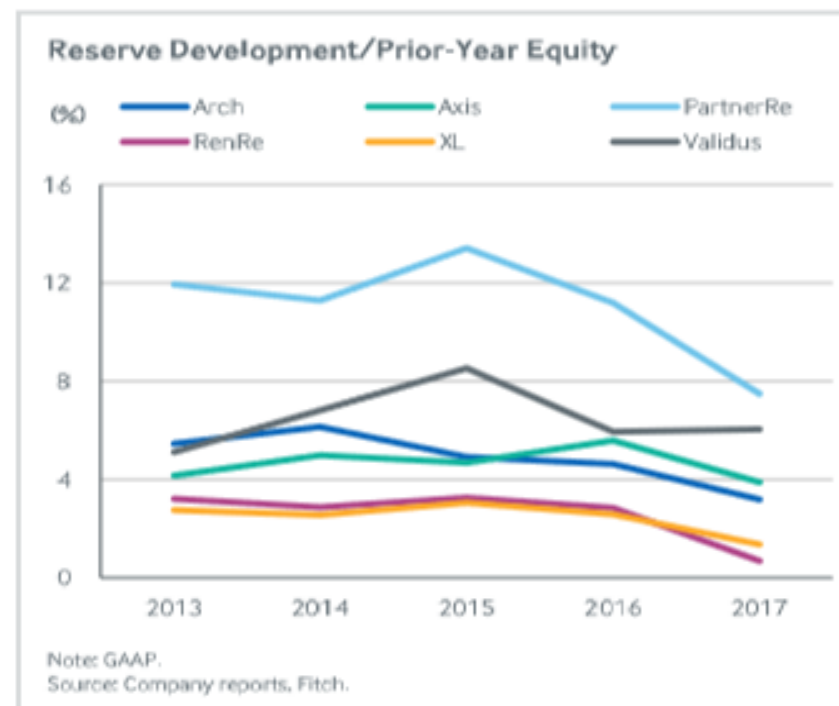
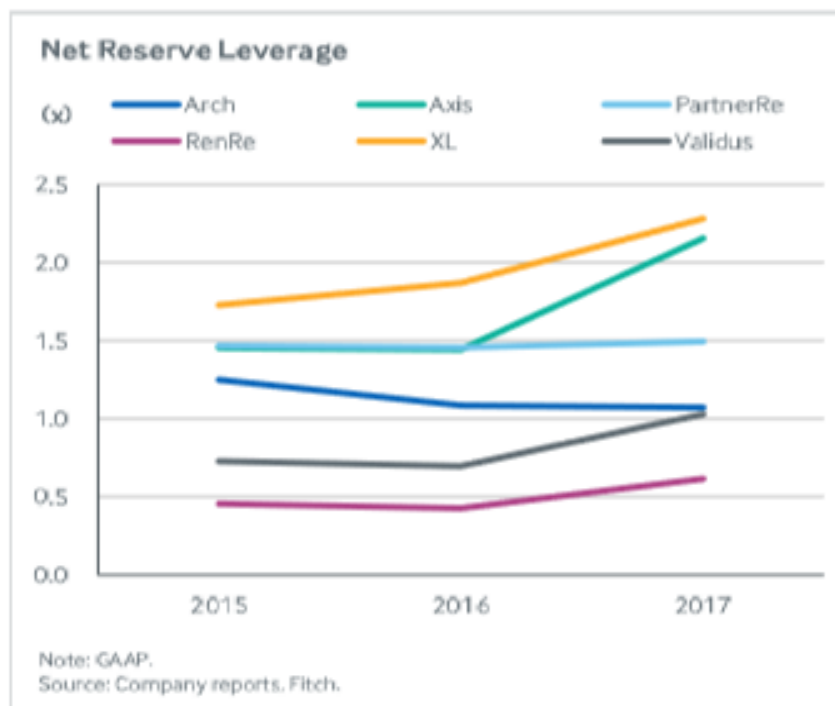
## 3.2 – Firming Pricing Cycle

Q1 2019 saw increases in prices for ABIR members:

- US Commercial rates up
- Insurance rates between 1.5-3.3%
- Reinsurance rates between with CAT Exposed losses in excess of 15%
- Late Florida renewals being reported

## 3.3 - Reserving Position

Bermuda (re)insurers had conservative reserving practices with strong reserve positions resulting in a Fitch position of moderate to low influence on ratings



## 3.4 - Investment Income

- Bermuda (re)insurers maintained high-quality investment portfolios (Source: Fitch)
- Majority in highly rated fixed maturity securities, short term investments and cash
- In Q1 2019, most (re)insurers saw strong investment portfolio growth and gains

Factor Scores	Investment and Liquidity					
	Arch (IFS = A+)	Axis (IFS = A+)	PartnerRe (IFS = A+)	RenRe (IFS = A+)	XL (IFS = A+)	Validus (IFS = A)
aaa						
aa+						
aa						
aa-						
a+						
a						
a-						
bbb+						



# 4 - New Products Emerging Risks



Cyber



Flood



De-Risking  
Government

## 4.1 - Cyber

- Eyes Wide open
- Cyber risks are enterprise risk – transition to stand alone products
- Aggregation Concern
- Societal Opportunity

## 4.2 - Flood

- Estimated 1% of consumers had flood insurance coverage for the Midwest states spring floods
- Estimated 200 million Americans affected by floods so far in 2019
- Private Flood insurance at \$623mn direct premium written in 2018
- New banking rule to allow banks to easily accept private flood coverage for federally backed home loans
- International (re)insurers well positioned with capital capacity to accept additional private flood
- High-risk areas could increase number of homes with flood insurance

## 4.3 – De-Risking Government

- California Senate bill (SB290) for an insurance policy to pay for unexpected costs for disaster response
- California spent \$947mn in 2017-18 through the emergency fund for firefighting – more than \$450mn more than budgeted
- NFIP barely reauthorized at May 31<sup>st</sup> sunset - \$19bn aid bill stuck in U.S. House
- NFIP / FEMA 2016-2019 Reinsurance Progress
- NFIP has amassed \$20bn in debt

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**ABIR\_Bermuda**

# Thank you

