

BERMUDA IDEAL LOCALE FOR INSURTECH CAPTIVES

by Matthew Carr

8 February 2018

There is no denying that technological developments are continually changing the way we live. Some of these developments have been in, and will increasingly be seen in, the insurance and reinsurance space.

Many will have heard of 'fintech', a term described at the recent World Economic Forum as the use of technology and innovative business models in financial services.

Two insurance-related derivatives of fintech are 'insurtech' and 'reinsurtech'. These terms are used to describe the various emerging technologies and innovative business models that have the potential to transform the insurance industry and reinsurance industry respectively (hereinafter used interchangeably as insurtech).

For the purposes of a topical example of insurtech, we can look to Bermuda's roads. The recent coverage in this newspaper around road safety highlights the shockingly high road traffic accident and injury figures in Bermuda. Local insurers may decide to employ telematics (sensors that are able to process and distribute information via telecommunication devices) on the vehicles of insureds to monitor speed and any number of other characteristics. The collected information could then be used to eliminate dangerous drivers, or change dangerous driving behaviour by increasing premiums for certain insureds or demographics of insureds, for example.

Insurtech is relevant to nearly all if not all areas of the insurance and reinsurance industry, and according to a report compiled by Aon, has garnered approximately \$14 billion in cumulative investment.

The focus of this article will be on captive insurers, and more specifically the potential for Bermuda to play host to captives harnessing insurtech.

Captives represent a fertile area for the harnessing of insurtech as they frequently address bespoke risks and programmes suited specifically to a group or groups of related entities. Generally speaking, captives may also be able to quickly adopt insurtech products and or services relative to large-scale commercial insurers, having a smaller number of policyholders who have to 'buy in' to the changes. Accordingly, bespoke insurtech products and or services may lend themselves to these captive programmes, even in the early stages of deployment.

Efficiency of operation is often of paramount importance in the setup and on-going viability of a captive. As one of the driving forces behind insurtech is bringing about greater efficiencies, this too makes captives an ideal area of the insurance industry to embrace insurtech.

Bermuda has been at the forefront of innovation in the insurance space since the birth of captives in 1962 right up to today's cutting-edge insurance-linked security transactions. Bermuda offers an array of advantages to an existing captive looking to harness insurtech and or to a potential captive looking to set up shop on our shores.

For example:

- Bermuda currently holds two-thirds of global ILS volume, and as such is well-situated to work with captives to develop alternative risk structures;
- The island offers an advantage of being a highly rated environment with which rating agencies are very familiar;
- More than 80 per cent of AM Best's Bermuda-rated captives are highly rated, having a rating of A- or better;
- Bermuda-based insurance service providers are pre-eminent and are, in many cases, very well versed in the insurtech space; and
- Bermuda's world-renowned reinsurance market offers an enormous array of reinsurance options for captives looking to cede risk from around the world.

A dynamic regulator is a key component in attracting innovative captives to the island or fostering existing ones. The Bermuda Monetary Authority's (BMA) track record in this regard is world-leading.

The BMA's 2017 Business Plan makes it clear that it will be working collaboratively with the insurance market experts and industry to assess what changes need to be made to the existing regulatory framework and supervisory skills set of the BMA with a view to enhancing its ability to respond to future developments in the insurtech space. The BMA is also establishing an Insurance Innovation Committee to identify areas for future employee training and to publish thought leadership materials.

Bermuda appears set to further enhance its position as a captive domicile of choice by embracing innovation and captives seeking to harness insurtech.

This article has been written by:

Bermuda

Matthew Carr

Associate

+1 441 298 3594

mcarr@applebyglobal.com

Matthew Carr is an associate in the Corporate department at Appleby. A copy of this column is available on the firm's web site at applebyglobal.com