

Resilient Bermuda stays on top

Bermuda's role as a global risk hub is as strong as ever, explains Tim Faries, Bermuda managing partner, Bermuda group head, and corporate group team leader, insurance at law firm Appleby.

The Bermuda economy is improving, according to government figures: is that a reflection of how international business is performing?

The international business sector, of which financial services is a big part, is an important contributor to Bermuda's economic output. The steady growth in GDP seen in 2015 is attributed to growth in the international business sector: we've seen that in terms of the number of incorporations. In fact, there has been steady growth in the number of formations since 2009/10 - and it was still holding up in 2015.

Insurance and reinsurance is still the biggest contributor in terms of jobs and economic output and that sector has been sustained by activity in the ILS and collateralised reinsurance business. It's become a strong growth area for Bermuda with 75% of ILS transactions completed in 2015 taking place here. Appleby, which has played a significant role in the ILS sector acted on about two-thirds of Bermuda's ILS transactions, including the majority of Bermuda's collateralised reinsurance (or 'cat bond lite') transactions.

What strengths does Bermuda play to in the current re/insurance market environment?

In the case of ILS, it has gained traction partly because of the lack of alternatives available to institutional investors who have found traditional investment products less attractive. The re/insurance market has responded to this demand by developing structures that make the link between capital and risk more transparent, fuelling growth.

Bermuda has a long record for producing innovative, effective solutions. In today's market, people come to Bermuda to create alternative risk structures because there is

the support and strong regulatory oversight they need to succeed.

Qatar Re re-domiciled to Bermuda last year: is there potential for similar moves this year?

Qatar Re re-domiciled to Bermuda for the same reasons as many others. Bermuda is attractive because it has a vibrant reinsurance community. The regulatory environment and impending Solvency II equivalence is another big advantage because it gives easier access to European markets.

It is also a testament to how much effort Bermuda puts into attracting quality business from high growth markets like MENA. Bermuda has a very high profile around the world.

Does Bermuda have a role to play in the development of emerging economies and their risk transfer needs?

There will be others like Qatar Re and in the last few years Bermuda has focussed attention on non-traditional markets like Latin America and MENA. Around one fifth of new registrants in the last year came from Latin America or Canada. I think Bermuda's profile will grow in emerging countries just as it has in Europe and North America for both captives and growing third party reinsurers.

Solvency II equivalence is in sight now: why is it so important to Bermuda?

The difficult work in obtaining equivalence is behind us and we are confident that every issue has been worked through with EIOPA. Equivalence is important because businesses in EU member states wanting to trade with Bermuda re/insurers would face significant barriers without Solvency II equivalence. The ability to passport into Europe maintains the level playing field for Bermuda reinsurers and their competitors in the EU.

But also, Solvency II is emerging as the norm in terms of global insurance regulation and naturally Bermuda's global standing is substantially bolstered by being an early adopter.

On the regulatory front, it is significant that Dr. Marcelo Ramella, Deputy Director of the Bermuda Monetary Authority (BMA), has been appointed Chair of the International Association of Insurance Supervisors' (IAIS) Reinsurance Task Force. It is a reflection of how prominent Bermuda is in the industry and how active it has been in shaping regulation.

Will ILS in its different forms continue to be a growth area for Bermuda, with other centres including London looking for a piece of the action?

The ILS sector will keep growing, albeit possibly at a slower pace, and will broaden out from the property cat focus in time. But insurance centres like London face big challenges beyond implementing the appropriate ILS regulation. It has to be a low cost environment in which to maintain ILS special purpose vehicles and it has to facilitate a fast turnaround. For their part, other small island domiciles simply don't have a big enough insurance market to pose a competitive threat to Bermuda.

Bermuda has been through different stages in its evolution as a risk hub. How would you characterise Bermuda 4.0?

In 2015 we saw numerous reinsurance mergers and acquisitions, resulting in several big players in the market. We will always have dominant players but I think we will see an evolution of 'Bermuda 4.0' insurance companies. These companies will have a smaller footprint in Bermuda than the classic Bermuda cat XL start-ups. They will have a small staff complement and they will rely on technology, with certain back office functions outsourced. This new breed will be nimble and might write traditional covers; they will also incorporate ILS structures in their niche business, instead of looking for an IPO before going mainstream as has been the case in the past. As mentioned, the ILS market, particularly cat bond lite issuances will continue to grow given speed to set up, low cost and continued investor confidence in ILS structures.