

## Insurance & Reinsurance - Bermuda

### Insurance-linked securities take off in Bermuda

Contributed by **MJM Ltd**

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Bermuda is emerging as a leader in the global insurance-linked securities market, just three years after insurance-linked securities were first listed on the Bermuda Stock Exchange. This is no small achievement for Bermuda, which will further make its mark on the world stage when it hosts the global insurance-linked securities conference – Convergence 2013 – in November 2013.<sup>(1)</sup>

What sets Bermuda apart? According to Minister for Economic Development Dr Grant Gibbons, Bermuda's success can be attributed to having the right mix of several critical factors at the right time. "A combination of intellectual capital, leading investor and reinsurance marketplaces, a tried and tested approach and the right listing and regulatory backdrop," explained Gibbons, "[all] provide for optimal conditions and competitive advantage for transacting insurance-linked deals."

Bermuda is one of the world's largest reinsurance markets, hosting some 1,400 insurance companies with total assets of approximately \$442 billion. According to figures published by Swiss Re, as of December 31 2011, 13% of the global insurance-linked securities investor base was located in Bermuda (44% in Europe, 36% in the United States, 5% in Canada, 1% in Japan and 1% in Australia), and the global insurance-linked securities investor base-type is:

- 71% dedicated;
- 20% money manager;
- 6% reinsurer;
- 2% hedge fund; and
- 1% insurer.

These figures indicate that Bermuda – the only small jurisdiction among considerably larger ones – has a disproportionately large insurance-linked securities investor base, with several types of insurance-linked securities investor present on the island.

The island has over three decades of experience in providing sophisticated insurance solutions to a global client base and, as host of Convergence 2013, Bermuda will see insurance and reinsurance companies, investors, sponsors, securities firms and investment banks, asset managers, regulators and service providers congregate to network and discuss the industry's most strategic opportunities and pressing challenges.

Historically, insurance-linked securities (which first appeared on the world stage in 1996) were not listed in Bermuda. This changed in 2009 after the Bermuda Monetary Authority (BMA) introduced the class of special-purpose insurers by passage of the Insurance Amendment Act 2008. Typically, special-purpose insurers are independently financed companies that adopt risks from and are managed by reinsurance companies, and while not every special-purpose insurer is formed to issue insurance-linked securities, most are.

The BMA also introduced a streamlined, expedited application process for special-purpose insurers that reflects its support of issuers wishing to seek an exchange listing for their insurance-linked securities, most often brought to market as catastrophe risk bonds, but also in the form of asset-backed promissory notes and other financial instruments. Due to the fact that a special-purpose insurer is required to be fully funded and may sell its debt securities only to sophisticated participants (unless the BMA expressly permits otherwise), the BMA has stated that it would be inclined to require less information from a special-purpose insurer during both the application process and the ongoing filing process than it would from conventional reinsurers.

In 2011 the global insurance-linked securities market continued to expand, and the

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growth of this market in Bermuda was significant. By early 2012 the Bermuda Stock Exchange had listed 25 insurance-linked securities with a total nominal value of \$3.4 billion (the 2011 global insurance-linked securities market amounted to \$13.8 billion). During the course of the year, the BMA licensed 23 new special-purpose insurers (a significant increase from eight in 2010 and one in 2009). The majority of these special-purpose insurers were created for the issue of catastrophe risk bonds.

The market for insurance-linked securities has remained stable, notwithstanding the losses caused by Hurricane Sandy in 2012. The BMA licensed 27 new special-purpose insurers and, as of the end of March 2013, 40 insurance-linked securities were listed on the Bermuda Stock Exchange with a total nominal value of approximately \$6 billion.

There are good reasons to anticipate that the market for insurance-linked securities in Bermuda will continue to grow. Capital market investors' appetite for insurance-linked securities as an asset class has been growing globally. Aside from offering attractive interest rates, insurance-linked securities allow investors to diversify their investment risks, as the values of insurance-linked securities are determined by insurance loss events and not by the factors that typically affect the value of securities in conventional capital markets. Bermuda offers a sophisticated regulatory and listings environment through the BMA, a well-respected regulator, and the Bermuda Stock Exchange, the largest fully electronic offshore securities exchange, with four decades of experience. Most significantly, Bermuda is in a unique position, having both a large reinsurance market and a significant insurance-linked securities investor base; many of the players are already on the island.

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## Endnotes

(1) See

[www.bermuda-insurance.org/pdf-downloads/ILS\\_Bermuda\\_Press\\_release\\_March\\_2013\\_v6\\_LN.pdf](http://www.bermuda-insurance.org/pdf-downloads/ILS_Bermuda_Press_release_March_2013_v6_LN.pdf).

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