

PUTTING GLOBAL RISK CAPITAL TO WORK

BY BRAD KADING

Capital comes to Bermuda to take on insurance risk. Walking through the Island's capital, Hamilton, you quickly conclude that insurance risk taking capital from Australia, Canada, China, Italy, Japan, Germany, Qatar, the Netherlands, Switzerland, the United Kingdom and the United States is here.

Investors do not hide capital here, they put it to work. That was true in the late 1960s when the captive industry was born here, it was true in the 1980s when the commercial insurance market was born here, it was true in the 1990s when the reinsurance market was reborn here and it was true in this century when alternative capital planted its flag to make Bermuda its new home.

Bermuda's commercial insurance and reinsurance market is

thriving. It is doing something that is very difficult to do – innovating to keep up with the times.

Yet it is not just the insurers doing the innovation, it is also the regulatory authority – the Bermuda Monetary Authority (BMA) – keeping abreast of international standards and it is the Government, with the Ministry of Finance moving to keep pace with global trends and requirements on cooperation with its more than

A tall ship and a cruise ship docked along Front Street, Hamilton, Bermuda (25.05.16). © Andrew F. Kazmierski / Shutterstock



Photo: Courtesy Ann Spurling

90 treaty partners on tax law enforcement and the ever changing standards on disclosures to tax and regulatory authorities.

Bermuda is a jurisdiction where local kids grow up wanting to be catastrophe modellers, accountants or insurance underwriters. It is a unique place. Its smallness means that the Silicon Valley effect is real in the insurance community. People see each other at the grocery store, socialise with each other, share ideas with each other.

Although most of the insurance employees are Bermudian, we have also integrated Americans, Aussies, Brits, Canadians, Cypriots, Germans, Irish, Japanese, the French and more into our employee pool: all for the collective growth of the insurance business which drives Bermuda's economy.

The Association of Bermuda Insurers and Reinsurers (ABIR) represents the property and casualty insurers and reinsurers. Our members today have \$96 billion in global capital, and wrote \$72 billion in premium in CY 2015 with business relationships from more than 100 jurisdictions.

Our regulatory footprint spans the world, although two thirds of the membership has their ultimate holding company here in

Bermuda. Eighteen of our members have licensed entities in the UK and the membership has licensed entities in 16 other European states. Company footprints expand south from Canada to Brazil; and spread west from Australia, to Singapore and India. In addition to our 1,500 plus employees in Bermuda, ABIR members now have 9,800 employees in Europe, 19,000 employees in the United States and more than 8,000 employees spread throughout the Asia/Pacific region.

Our footprint around the world is illustrated by these global loss estimates for Bermuda based insurers and ABIR members. We have drawn this data from high profile loss events which have been reported in the international press. Bermuda's (re)insurers paid nearly:

- 30% of the insured losses from 2005 US Hurricanes Katrina, Rita and Wilma
- 62% of the claims for the UK's largest peacetime fire and explosion - the Buncefield oil terminal fires of 2005
- 20% of the combined global loss estimates for China's 2015 Tianjin explosion
- 50% of the reported losses for Italy's 2012 Costa Concordia cruise liner sinking
- 16% of the reported liabilities for United States' 2012 Hurricane Sandy



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- 29% of the reported liabilities for the international reinsured share of the 2011 Japanese earthquake.
- 37% of the reported liabilities for Europe's 2010 Windstorm Xynthia
- 38% of the reported liabilities for Chile's 2010 earthquake
- 51% of the reported liabilities for New Zealand's aggregated 2010 and 2011 earthquakes
- 22% of the theoretical \$1 billion market loss for the 2009 Air France crash
- 25% of the reported reinsurance losses for the 2016 Alberta, Canada wildfires

With regard to global spread of risk, these coverage points also demonstrate our global diversity:

- Write 20% of the broker-placed European property catastrophe reinsurance
- Provide 35% of the capacity for Lloyds of London
- Provide 19.5% of the terrorism reinsurance capacity to UK's Pool Re
- Write 14% of aggregate global reinsurance premium
- Include 15 of the top 40 reinsurers in the world
- Supply 40% of the US and UK broker-placed property catastrophe reinsurance market
- Provide more than 60% of the hurricane reinsurance in Florida and Texas

The business model is one reliant on global pooling of risk. The ability to pool this risk globally means that more risk can be written on the flagship's capital base. The pooling means risk associated with that capital is well diversified – resulting in premiums being less and capacity greater than they otherwise would be. There are challenges with this model – of most concern is the increased regulatory protectionism.

We have seen China and India act to force creation of local reinsurance companies; Poland and Germany have acted to close cross border reinsurance trade except to reinsurers from EU or EU equivalent jurisdictions; Indonesia has created a reinsurance monopoly; and, Argentina, Ecuador and Brazil have all acted to restrict cross border reinsurance use.

For Bermuda's largest two trading markets – the US and the EU – Bermuda has largely been able to manage such market restrictions by reaching bilateral agreements on regulatory recognition.

Both the Bermuda/EU Solvency II equivalence finding and the US NAIC Bermuda regulatory recognition allow for Bermuda's reinsurers to gain the benefits of efficient reinsurance cross border trade. ABIR suggests that other jurisdictions look to recognition of effective regulatory systems and the financial standing of reinsurers instead of instituting arbitrary domestic preference provisions.

Meanwhile ABIR and its colleagues in the Global Federation of Insurance Associations (GFIA) continue to make the case to global regulators at the International Association of Insurance Supervisors (IAIS) and international organisations such as the International Monetary Fund and the World Bank that such reinsurance regulatory protectionism:

- 1) increases solvency threatening concentration risk for domestic insurers;

- 2) limits choice of counterparties and thus increases counter party credit risk;
- 3) limits competitive market benefits thus raising consumer costs; and
- 4) contradicts the goals of the growing national champions who themselves are creating their own global reinsurance platforms to achieve twin goals of growing their business and achieving risk diversification.

Despite these and other global regulatory challenges, ABIR members and their Bermuda partners continue to innovate with new cyber, trade credit, mortgage, healthcare and liability offerings.

We are also working on expanding markets in both the developed world and the developing world by decreasing reliance on government run insurance programmes and encouraging private sector alternatives.

You will be hearing more about the important work of the Insurance Development Forum in the coming year. We will continue to work with our regulator and our Government to promote the benefits of this dynamic market to the world's insurance customers and towards ensuring that Bermuda continues to be the place where global capital gets put to work taking on insurance risk.



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Bradley L. Kading is President and Executive Director of the Association of Bermuda Insurers and Reinsurers (ABIR).

As President and Executive Director, Kading directs ABIR's public policy activities around the world. He gives talks regularly to numerous policymaker and industry groups and has authored articles in various industry publications.

Prior to joining ABIR, Kading served for 14 years as Senior Vice President and Director of State Relations for the Reinsurance Association of America.

Kading earned a Masters in Business Administration from the Kellogg School of Graduate Management at Northwestern University and a B.A. in Journalism from Drake University. He subsequently received CPCU and ARe designations.