Captive Insurance Guide

A review of captives and the Bermuda captive insurance market

Adding strength and balance to risk management

September, 2020
Insurance premiums are a significant operating cost for any business, irrespective of its location or industry. Unfortunately, the underwriting process isn’t as simple as an insurer pricing a risk to cover the potential loss for that business in the upcoming period. The insurer will also factor in the cost of using their capital to insure the risk, including a margin for profit, as well as the overall performance of all their clients within the risk concerned. A fundamental principle of insurance being that the premiums of the many cover the losses of the few.

Additionally, a business won’t know the cost or terms of their insurance program for the upcoming year until policy renewal. This makes insurance a very difficult cost to budget against. Even if a business has a great year with very low claims, it is still possible for the premium to increase if the insurers portfolio (that includes your risk) has experienced a large volume of losses.

These factors are receiving increased attention across businesses globally as the commercial insurance market has seen significant price increases globally. Businesses are now reviewing alternatives to commercial insurance and questioning whether their current insurance programs are still fit for purpose.

This guide provides a comprehensive background to one such alternative, captive insurance. Within the guide we will provide:

- An overview of captives
- Potential captive structures
- The drivers and benefits of captives for decision-makers: Risk Managers, CFOs, & CEOs
- Major captive jurisdictions, and why Bermuda is a market leader
- The process of setting up a captive

We will also include several case studies for projects we have completed, and background to the KPMG team in Bermuda that is leading the way as a captive centre of excellence.
Captives – an overview

An introduction and background to captives

A 'captive' insurance company is an insurance company that is established to predominately insure or reinsure the risks of its parent, or organisations affiliated with its parent(s).

Captives have existed in some form since the 1870s, when the first protection and indemnity clubs were created. However, growth of the captive market was slow up until the 1960s when only about 100 captives were formed.

The Bermuda market was where the significant growth of captives began in the 1970s, with greater growth in the 1980s and 1990s due to a hard insurance market and the difficulty in obtaining traditional insurance to cover organisations’ exposure to liability claims.

A wide range of companies, not-for-profit organisations and government agencies worldwide rely on captives as part of their programs for managing risk. Emerging risks that are difficult to insure within traditional insurance markets have acted as another driving force behind the growth in captive insurance. A captive can also include risks that are generally excluded in traditional insurance policies.

An introduction and background to captives

The captive insurance industry is experiencing change driven by the shifting regulatory landscape, the introduction of Solvency II, international tax developments and the hardening of the commercial insurance market.

We see a number of trends in the use of captives:

- A significant increase in small to mid-size captives, up to US$6m net premium, created in recent years.

- A growing trend for increased diversification within captives to cover new risks, such as terrorism, cyber and employee benefits. This has been led by an increased drive for capital efficiency and building out the captive based on success.

- Captives have also witnessed growth in insuring third party risks, such as insuring contractors hired by the captive’s parent under an owner controlled program. By doing this the captive achieves greater risk management, as well as recapturing underwriting profit from the commercial insurance market.

More than 90% of Fortune 500 companies have a captive

In 2017 there were 6,647 active captives worldwide

2018 net premiums for captives in Bermuda, Cayman and Barbados surpassed $3.5 bn

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KPMG Captive Insurance Guide
There are a wide range of potential structures that can be adopted, including:

01 A single parent captive

Single parent captives

The captive is 100% owned by its parent who sets the risk appetite and decides which lines of insurance the captive underwrites and how capital should be utilised. Additionally, the parent also sets the investment strategy and can decide how to distribute profits, should they be generated. This structure remains the most used within the industry and is accepted globally, proving an effective alternative to commercial insurance.

02 Third party captives

Third party captives such as rent-a-captives and protected cell captives, and

03 A group/association captive.

Group/association captives

Here multiple businesses, usually from the same industry, will join together to pool their risk for one or more lines of insurance into one structure. This generally offers greater economies of scale and diversification if a business isn't large enough to warrant its own individual captive.

Segregated Account Companies offer a business a softer approach to incorporating a captive. The business can own shares or a governing instrument within a segregated account from the segregated account core. Most large insurance managers operate a segregated account company. The core comprises of a board of directors providing minimal regulatory or operating capital. The liabilities of each cell is independent and attributable to the shareholder. The liability of each cell owner are independent.
Captives – stakeholders

There are three primary stakeholders for a captive:

01 Captive Managers

Captive managers provide a wide range of services including:
- Being the primary contact for the regulator, ensuring the captive is compliant with all regulations
- Preparing the captive’s financial and operational records
- Providing insurance, risk management and underwriting expertise
- Preparing quarterly and annual financial reports
- Coordinating captive board meetings
- Providing the link between the captive’s other service providers, such as auditors and actuaries

Bermuda is home to many of the largest captive managers.

02 Fronting Insurer

Typically, captives are not licensed to issue policies internationally, and some insurance products can only be provided by locally regulated insurers. Through a fronting arrangement a licensed insurer will issue the policy in the relevant country, and then reinsure the risk, either in whole (gross) or part (net) back to the captive. Today, many fronting insurers prefer to retain a portion of the risk being fronted. The major insurers who offer fronting services include:
- AIG;
- Chubb;
- Zurich; and
- AXA XL

In terms of program structure fronting partners offer a wide range of services, including:
- Policy administration;
- Cash flow management;
- Claims management; and
- Compliance support

03 Reinsurance solutions

Direct access to the reinsurance markets is a significant benefit of creating a captive. The advantage of purchasing reinsurance direct is that there is generally greater flexibility within the policy terms, and the wholesale pricing is comparably lower than the commercial insurance market. The cost for reinsurance will heavily depend upon the risk appetite of the captive.
Captives - drivers and benefits for decision-makers: Risk Managers, CFOs, and CEOs

<table>
<thead>
<tr>
<th>Role</th>
<th>Drivers and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Manager</strong></td>
<td>Improve the operational performance of the business</td>
</tr>
<tr>
<td></td>
<td>Remove insurance pricing and coverage uncertainties</td>
</tr>
<tr>
<td></td>
<td>Create a program that meets the needs of the business</td>
</tr>
<tr>
<td></td>
<td>Access loss and claims data</td>
</tr>
<tr>
<td></td>
<td>Focus on day job</td>
</tr>
<tr>
<td></td>
<td>Focus on reducing risk and not insurance renewals</td>
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<tr>
<td></td>
<td>Insure new/emerging risks</td>
</tr>
<tr>
<td></td>
<td>Ability to insure risks where there is a lack of capacity</td>
</tr>
<tr>
<td><strong>Chief Financial Officer</strong></td>
<td>Control cost management within the business</td>
</tr>
<tr>
<td></td>
<td><strong>Reduce the insurance spend</strong></td>
</tr>
<tr>
<td></td>
<td>Price risk in line with your experience and not the market’s experience</td>
</tr>
<tr>
<td></td>
<td><strong>Control the claims process</strong></td>
</tr>
<tr>
<td></td>
<td>Control and monitor claims process</td>
</tr>
<tr>
<td></td>
<td><strong>Reduce claims leakage</strong></td>
</tr>
<tr>
<td></td>
<td>Utilise premium spend to generate investment income</td>
</tr>
<tr>
<td></td>
<td><strong>Improve cash flow</strong></td>
</tr>
<tr>
<td></td>
<td>Access to the reinsurance market to cede risk outside of the business’s risk appetite</td>
</tr>
<tr>
<td><strong>Chief Executive Officer</strong></td>
<td>Achieve stability and growth for the business</td>
</tr>
<tr>
<td></td>
<td>Remove any unwelcome surprises</td>
</tr>
<tr>
<td></td>
<td>Long-term risk management strategy</td>
</tr>
<tr>
<td></td>
<td><strong>Internal company focus</strong></td>
</tr>
<tr>
<td></td>
<td>Allow staff to take greater accountability for risk management</td>
</tr>
<tr>
<td></td>
<td><strong>Establish a new profit center</strong></td>
</tr>
<tr>
<td></td>
<td>Insurance profits are maintained within the business, in addition to investment income</td>
</tr>
<tr>
<td></td>
<td><strong>Give greater transparency to the business’s performance</strong></td>
</tr>
<tr>
<td></td>
<td>Greater data analytics can improve operating performance</td>
</tr>
</tbody>
</table>
Captives - jurisdictions

Selecting a jurisdiction is a very important decision for any potential captive. Captive jurisdictions vary significantly across a range of topics including; license set-up time, capital requirements, regulation, and flexibility, tax requirements, and management set up. The KPMG team can answer all your associated questions across different jurisdictions.

Bermuda

Bermuda’s risk-based regulatory model sets it apart from other insurance centres, and it continues to be the premier domicile for the captive sector in the global market.

Bermuda has long been recognised as an industry leader for captives, and this traces back to 1962 when the first modern day captive was incorporated on the island. As of 2018 it was the largest global captive domicile with 711 captives, and 19 new captives being incorporated across a variety of industries.

The Bermuda regulator, Bermuda Monetary Authority (BMA), has adopted a risk-based approach to regulation, incorporating the revised International Association of Insurance Supervisors (IAIS) core principles, allowing for greater oversight of companies with riskier profiles.

Bermuda’s commercial (re)insurance regime is fully equivalent to regulatory standards applied under Solvency II in Europe. Bermuda’s captive classes are not impacted by Solvency II equivalence. This means that capital requirements for the captive will be different (and generally lower) than Solvency II domiciles.

Guidelines relating to the classes of captives, captive requirements and minimum margin of solvency for captives are in the appendix of this guide.

KPMG has operations in all major captive jurisdictions and our captive team have experience setting up structures globally. Even though Bermuda is a captive market leader, we will always recommend the best jurisdiction for your business.

There are many domiciles across the world, both on-shore and off-shore, that offer a good home for a captive.

Number of Captives 2019

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Number of Captives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bermuda</td>
<td>715</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>618</td>
</tr>
<tr>
<td>Vermont</td>
<td>585</td>
</tr>
<tr>
<td>Utah</td>
<td>435</td>
</tr>
<tr>
<td>Delaware</td>
<td>366</td>
</tr>
<tr>
<td>Barbados</td>
<td>294</td>
</tr>
<tr>
<td>North Carolina</td>
<td>235</td>
</tr>
<tr>
<td>Hawaii</td>
<td>231</td>
</tr>
<tr>
<td>Guernsey</td>
<td>199</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>195</td>
</tr>
</tbody>
</table>

Source: Statista 2020
Setting up a captive in Bermuda

The following represents the procedures involved in the incorporation and registration process for a captive insurance company (KPMG can advise throughout this process):

**Phase 1: Preliminary feasibility analysis**

This high-level desk-based review will consist of a review of a business’s existing risk management structure and commercial insurance program investigating whether a captive will fit in the business’s operations. If feasible the analysis will then focus on a rough cost versus benefits analysis for a captive. It will also review the potential captive structures and compare a number of short-listed domiciles to give the business all the information needed to decide whether they should move forward with a captive.

This analysis can be completed within 2-3 weeks and, as it is desk-based, keeps the costs down for the business.

**Phase 2: Detailed feasibility study**

At this stage the business would have made the decision to undertake a full feasibility study. Here a blueprint for the captive will be created confirming the structure and jurisdiction. A business plan will be prepared with supporting 5 year financial projections that need to be sent to the regulator for approval. The business will also decide upon all service providers that the captive will utilize. This study will take the captive all the way through to implementation and include input from tax and actuarial experts.

This study will take between 4-8 weeks, dependent upon the complexity of the insurance program.

| Select professional service providers (lawyers, auditors, insurance managers, bankers, actuaries) |
| Reserve preferred name of company with Registrar of Companies |
| 1. Submit preferred name, with two alternate names |
| 2. Will be reserved for three months |
| Apply to BMA to incorporate company and complete pre-incorporation documents |
| Submit application to register Memorandum of Association to Registrar of Companies |
| Incorporation applications approved. Incorporate and capitalize company and convene organizational meeting |
| Submit licensing to BMA for review by assessment and licensing committee; successful applications are approved for licensing |
| Finalized pre-incorporation documents submitted to BMA’s licensing and authorizations department for final registration |
| BMA issues insurance license and captive can begin operating |
Lifecycle of a captive

Amendments
In initial years management will learn where the captive is working well and be able to make amendments to operating structure.

Design
Complete all preliminary phases determining the captive structure, domicile and risk to be ceded to the captive.

Launch
Captive licensed by the regulator and able to underwrite risk as per the approved business plan.

Review
Due to changes both internally and externally a captive needs to be reviewed to ensure it remains relevant to the parent.

Restructuring
Should a captive no longer provide benefit to the parent it can be placed in run off allowing outstanding liabilities to either expire naturally, or be sold to a run off acquirer to manage.
01 **KPMG operational review case study – global automotive manufacturer and distributor**

KPMG was engaged by a global automotive manufacturer and distributor to review its worldwide insurance operations and provide ongoing assistance with the implementation of a coordinated risk management and captive insurance structure for the client’s continued expansion.

KPMG’s multidisciplinary team of professionals performed a critical analysis of the client’s existing insurance coverages and evaluated the strategic considerations involved in global domicile selection. During this process, KPMG reviewed a number of European domiciles in order to determine the most beneficial location for writing insurance business in over 20 European countries, including Ireland, Malta and Switzerland. Ultimately a global network of insurance companies was required to meet the complex tax and regulatory considerations in all corners of the globe.

As part of this engagement, KPMG delivered an exhaustive report which identified the recommended design and domicile for the client’s global risk-taking enterprise. Moreover, KPMG provided global project management and enabled the client to integrate and address the information technology, human resources, tax compliance and treasury considerations within this global enterprise.

Today this captive stands as one of the largest in the world, with an A.M. Best rating of A-. It maintains operations in Bermuda, Malta, Canada, and the United States with expansion plans underway for Russia, China, Mexico, Australia, and Switzerland. The captive provides coverage to customers in over 30 countries and has delivered several hundred million dollars of quantifiable net income benefit to the organization.

02 **KPMG feasibility study case study – Global fleet operator**

KPMG was engaged by a major motor leasing company to undertake a ground-up review of their risk transfer strategy.

The client operated a fleet of more than 400,000 motor vehicles and relied on third party commercial insurance to meet its insurance requirements for the fleet. KPMG was retained to assist the client and to create a capital model to assess the optimum level of risk retention in the group.

KPMG then undertook a detailed captive feasibility study to consider the most appropriate domicile and capital structure for the proposed captive. KPMG then assisted the client in undertaking a cost benefit analysis of the existing insurance structure. The captive was anticipated to underwrite £400 million of gross premium per year and is projected to save the client circa £80 million over the next 5 years.

03 **KPMG restructuring case study – Global Logistics Provider**

KPMG was engaged by a global logistics provider to perform a comprehensive analysis of the client’s European captive reinsurance program and provide recommendations regarding the relocation and restructuring of those operations in other domiciles.

KPMG reviewed the client’s existing business operations, the client’s structural options, the client’s domiciliary options and identified the benchmark critical factors for selecting a European reinsurance captive domicile.

At the end of the engagement, KPMG delivered a comprehensive report to the client which provided a detailed assessment and matrix comparison of the strategic tax and regulatory considerations for reinsurance operations in Bermuda, Malta, Gibraltar, Guernsey, Luxembourg, Isle of Man, Ireland and Switzerland.
KPMG in Bermuda

We have over 200 people delivering Audit, Tax, and Advisory services across five industry lines: Insurance, Asset Management, Banking, Government and Public Sector, and to Bermuda’s Middle Market through KPMG Enterprise.

We combine a multi-disciplinary approach with deep practical industry knowledge to help our clients meet challenges and respond to opportunities. Using KPMG’s local and global reach, and the skills and talents of our people, our team can provide industry specific services that can add real value to you.

We are a member firm of KPMG International, whose member firms have 219,000 employees working in 147 countries and territories around the world.

By the Numbers

200+ Employees
60+ years serving Bermuda
15 Managing Directors
11 Directors

Audit and Assurance

Our audit services cover more than just the audit of financial statements. We benchmark our clients’ businesses against peers and best practice, and provide meaningful feedback to management, boards, and audit committees. Our approach is designed to fit and evolve with our clients; meaning it is efficient in delivering a quality, robust audit with helpful challenge, forward thinking and regular insights.

Tax

Our tax team has extensive experience providing tax advisory and compliance solutions to the Bermuda and global financial services industry. We focus on understanding the relationships between tax laws and the accounting, regulatory, and business environment. By combining our industry insight and our technical skills, we provide clients with practical solutions. Our dedicated tax professionals are an integral part of the KPMG global tax network.

Advisory Services

No matter where you are in the business cycle, we can help. Whether it’s advice on improving the performance of your business, undertaking a transaction, restructuring your company or seeking advice on how to handle risk and compliance, our advisory professionals can help you achieve your business goals.

Increasingly, businesses are under pressure to satisfy demanding stakeholders and actively manage their risk profile, while turning investments into recognisable returns. Recent economic and political turbulence in the global markets has only highlighted the importance of building flexible corporate structures and strategies to safeguard investment returns.

Broadly, KPMG Advisory works with clients to tackle challenges in: Management Consulting; Risk Consulting; and Deal Advisory.
Our values are as follows:

**Integrity**
We do what is right

**Excellence**
We never stop learning and improving

**Courage**
We think and act boldly

**Together**
We respect each other and draw strength from our differences

**For Better**
We do what matters

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### Local thought leadership

**Captive insurance in the US Market**
Author: Jonathan Barnes

**Bridging the insurance gap: Captives for Canadian cannabis companies**
Author: Bron Turner

**Pandemics – the insurance protection gap**
Author: Jonathan Barnes

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**CORPORATE CITIZENSHIP**

At KPMG, we have a collective interest in the communities we serve. Our focus is on youth development, education, health, and the environment. We are proud to align our efforts with local initiatives and activities that benefit our communities and its members, and our corporate giving also covers grassroots charities with a focus on culture, art, and humanities. Additionally, we provide professional services on a full or partial pro-bono basis to not-for-profit organisations.

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Our KPMG Code of Conduct is one of our most important documents. It expressly lays out the expectations of ethical behaviour for all our people, built on the foundation of the KPMG Values. The Code is available on our website at: kpmg.bm

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Values create a sense of shared identity at KPMG. They define what we stand for and how we do things, helping us to work together in the most fulfilling way to provide the best service to our clients.
Meet the team

**Damion Henderson**
Managing Director
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Damion is a Managing Director in the Insurance practice of KPMG in Bermuda and is the Captive Insurance Sector Lead. He has 23 years’ experience in the Bermuda market and insurance industry and has been a Managing Director with the firm for over 15 years.

Damion has worked with a wide range of global reinsurers and captives writing property and casualty risks, structured risk, life and health business. He is experienced in both US GAAP and IFRS and has extensive experience working with the Bermuda regulator, the BMA.

**Kevin O’Reilly**
Senior Manager
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Kevin is a Senior Manager in the Actuarial and Financial Risk Management team within KPMG in Bermuda. He is a qualified Fellow of the Institute and Faculty of Actuaries and has 10 years’ experience in the insurance industry across the Bermuda and London markets.

Kevin has worked with a wide range of global reinsurers and captives writing property and casualty risks, structured risk, life and health business reviewing. He has experience in loss reserving, pricing, solvency and capital and has worked closely with the Bermuda regulator, the BMA, including undertaking a six month secondment.

**Mark Allitt**
Managing Director
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Mark leads the Insurance Consulting and Deal Advisory practice for KPMG in Bermuda. He has extensive experience in the insurance industry gained over the past 16 years, of which the last 10 years has been based in Bermuda. Mark has worked on insurance and reinsurance engagements in over 56 countries during his career and as a result has an extensive and broad spanning network of contacts, together with a good understanding of the operational and risk environments around the world.

**Bron Turner**
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Bron is a Director in the Insurance practice of KPMG in Bermuda. He has more than 10 years’ of accounting, audit and advisory experience with seven years’ experience in the Bermuda market and insurance industry.

Bron has worked with a wide range of global reinsurers and captives writing property and casualty risks, including new and emerging risks. He is experienced in both US GAAP and IFRS and has extensive experience working with the Bermuda regulator, the BMA.

**Scarlet Ramos**
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Spanish speaking

Scarlet is a Manager in the Insurance Audit Practice with a particular focus on providing audit services to Latin American captive insurers and reinsurers. She has over 12 years’ experience in audit. Prior to Bermuda, Scarlet spent nine years with KPMG in Venezuela and is fluent in Spanish.

**Michael Campbell**
Manager
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Mike is a qualified chartered accountant with over 10 years’ experience in financial services. Mike is a Manager in KPMG’s Insurance Audit Practice specialising in audit services for captive insurers and commercial reinsurers.

**Jonathan Barnes**
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Jonathan is a Manager in the Insurance practice of KPMG in Bermuda and specialises within Captives and Insurance Risk Management.

He has more than 10 years’ experience working as an Underwriter within Property and Casualty risk, including Alternative Risk Transfer. He holds the ACII qualification and has achieved an MSc in Insurance and Risk Management.

Jonathan focuses on assisting clients understand their risk profile, strengthening their insurance program, and reviewing alternative risk strategies. He has considerable experience helping design captives, as well as assisting existing captives make their program produce the maximum benefits to the parent.

**Brian Archibald**
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Brian is a Senior Manager in KPMG in Bermuda’s audit practice providing audit and advisory services to a wide variety of insurers and reinsurers including SEC registrants, large non-public entities and captive insurance enterprises.

**Lynn Tan**
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Lynn is a Senior Manager in the Tax practice of KPMG in Bermuda servicing clients in the financial services industry. She has extensive experience providing U.S. and international tax consulting and compliance services to insurance and reinsurance companies.

**Geronimo Cello**
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Spanish speaking

Geronimo is an Assistant Manager in the Insurance Audit Practice of KPMG in Bermuda with focus on providing audit services to Latin American captive insurers and reinsurers operating in the property, casualty, financial and health sector.

He has experience with insurance operations, products, regulations and accounting, having delivered audit services to captive insurers and segregated cell companies.

Geronimo is fluent in Spanish and has extensive experience in IFRS, US GAAP and Bermuda statutory Regulations.
Appendix 1:
Bermuda classes of captive insurer

A general (non-life) captive insurer will generally fall into one of the following classes:

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1</td>
<td>Applies to single parent captive insurance companies owned by one or more affiliates of a group and underwriting only the risks of the owners of the insurance company and affiliates of the owners.</td>
</tr>
<tr>
<td>Class 2</td>
<td>For multi-owner captives defined as insurance companies owned by two or more unrelated persons, provided the captive underwrites only the risks of the owners and their affiliates and/or risks related to, or arising out of, the business or operations of the owners and affiliates. A Class 2 license applies to single parent and multi-owner captives writing no more than 20% of unrelated risks.</td>
</tr>
<tr>
<td>Class 3</td>
<td>Applies to single parent and multi-owner captives writing more than 20% but less than 50% of unrelated risks.</td>
</tr>
</tbody>
</table>

A long-term (life, annuity or long-term health and accident) captive insurer will generally fall into one of the following classes:

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A</td>
<td>A single-parent, long-term captive insurance company underwriting only the long-term business risks of the owners of the insurance company and affiliates of the owners.</td>
</tr>
<tr>
<td>Class B</td>
<td>Multi-owner, long-term captives which are defined as long-term insurance companies owned by unrelated entities, provided that the captive underwrites only the long-term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates.</td>
</tr>
</tbody>
</table>
Appendix 2: Bermuda Summary of captive requirements

Captive Classes

<table>
<thead>
<tr>
<th>Requirement</th>
<th>General (1, 2 &amp; 3)</th>
<th>Long-term (A &amp; B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Solvency Margin</td>
<td>Greater of:</td>
<td>Greater of:</td>
</tr>
<tr>
<td></td>
<td>1. Flat amount depending on class</td>
<td>1. Flat amount depending on class</td>
</tr>
<tr>
<td></td>
<td>2. % of net premium written depending on class</td>
<td>2. % of assets depending on class</td>
</tr>
<tr>
<td></td>
<td>3. % of loss reserves depending on class</td>
<td></td>
</tr>
<tr>
<td>BS CR Model for Enhanced Capital Requirement (<em>ECR</em>)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Economic Balance Sheet (<em>EBS</em>)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Minimum Liquidity Requirement*</td>
<td>YES</td>
<td>N/A</td>
</tr>
<tr>
<td>Statutory Financial Statements</td>
<td>YES – to be filed 6 months after year end</td>
<td>YES – to be filed 6 months after year end</td>
</tr>
<tr>
<td>GAAP financial Statements</td>
<td>Can be waived</td>
<td>Can be waived</td>
</tr>
<tr>
<td>Quarterly Financial Return (unaudited)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*MINIMUM LIQUIDITY REQUIREMENT

A captive must meet a minimum liquidity ratio requirement to maintain the value of its ‘relevant assets’ at no less than 75% of the amount of its ‘relevant liabilities.’ Unquoted equities, investments in and advances to affiliates, real estate and collateral loans are not ‘relevant’ for calculation of the liquidity ratio.

STATUTORY FINANCIAL RETURN

Every captive must file an annual statutory financial return with the BMA. The statutory financial return comprises the risk return, a statutory declaration of compliance and where necessary, an actuarial certificate for the loss reserves. All Class 2 companies must provide an actuarial certificate for the loss reserves every three years, while every long-term captive insurer and Class 3 must provide this certificate annually. The risk return is a self-assessment that firms conduct on an annual basis, appropriately modified given the limited-purpose and lower-risk profile of captives. This ensures firms remain appropriately classified and supervised within the BMA’s risk-based framework. The risk return includes the audited statutory financial statements; supplemental unaudited financial data including investment, underwriting, reserving and collateral; a qualitative assessment, and a confirmation of compliance with other aspects of the license, including changes to controllers and the ability to continue to operate at current capital levels. The information filed under the risk return will not be publicly available. Captives are required to file Statutory Financial Returns using the Electronic Statutory Financial Return (E-SFR) system.
Appendix 3: Bermuda minimum solvency margin

Amendment Act 2004
An insurer must maintain a minimum capital and surplus depending on its class on license as detailed in the tables below:

### CLASS MINIMUM MARGIN OF SOLVENCY

<table>
<thead>
<tr>
<th>Class</th>
<th>Greater of:</th>
</tr>
</thead>
</table>
| Class 1 | (a) $120,000,  
(b) 20% of the first $6m of net premiums written (NPW) plus 10% of the excess of $6m of NPW  
(c) 10% of loss reserves. |
| Class 2 | (a) $250,000,  
(b) 20% of the first $6m of NPW plus 10% of the excess of $6m of NPW  
(c) 10% of loss reserves. |
| Class 3 | (a) $1,000,000,  
(b) 20% of the first $6m of NPW plus 15% of the excess of $6m of NPW  
(c) 15% of loss reserves. |

<table>
<thead>
<tr>
<th>Class</th>
<th>Greater of:</th>
</tr>
</thead>
</table>
| Class A | (a) $120,000,  
(b) 0.5% of assets |
| Class B | (a) $250,000,  
(b) 1.0% of assets |
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