



The Long-Term Insurance Sector in Bermuda

An economic impact report from Bermuda International
Long-Term Insurers and Reinsurers (BILTIR)



September 2021



Introduction

KPMG Advisory Limited (“KPMG”) was engaged by Bermuda International Long-Term Insurers and Reinsurers (“BILTIR”) to research and present the impact of International Business, including the Long-Term sector, on Bermuda’s economy.

Methodology

KPMG’s approach to estimating economic impact was to analyse information reported by the Government of Bermuda’s Department of Statistics and other publicly available information. This information was supplemented by a survey of BILTIR members and interviews with stakeholders to obtain further insights and Long-Term sector-specific information. Based on the analysis of data and input from Long-Term sector experts, the sector’s future economic and employment impact was projected under varying assumptions.

KPMG has not audited nor performed any standard procedures to verify the information obtained. The views expressed in the report are those of interviewees and stakeholders who shared their perspectives on the current and potential contributions of Bermuda’s Long-Term sector on the economy, employment, and education.



Executive summary

BILTIR was formed in 2011 to represent the interests of life insurers and reinsurers in Bermuda, otherwise known as the Long-Term sector.

Below we provide a summary of the recent growth of Bermuda International Business and the Long-Term sector, and the positive impact this growth has had on the Bermuda economy. We then explore the potential for further growth.

Background

In the 1990s, international business (IB) became the dominant pillar of Bermuda's economy. IB continues to be the most significant source of inward investment and employment in Bermuda.

Current opportunity

Currently, the Long-Term sector is a driver of IB growth. This report details the evolving contribution of the Long-Term sector to the Bermuda economy and Bermudian employment. **The report outlines the potential for the Long-Term sector to further increase jobs, economic activity, and the tax base in Bermuda.**



International Business as a segment of GDP has grown by **3.3 times** since 2000.



Since 2011, BILTIR has grown from **5 founding members** to over **60 members**. Based on recent incorporations, this number is expected to increase by 5 to 10 new companies annually.



In 2019, the Long-Term sector had **\$667b** in assets under management.



BILTIR member companies provide nearly **\$500m** in direct and indirect expenditure to the Bermuda economy, approaching almost 10% of GDP. Industry experts believe that 5% to 10% growth is likely over the next 5 years with the right enablers in place.



BILTIR members directly employ **594 individuals**. Based on our recent survey **60%** of employees working in our industry are Bermudian. BILTIR companies have a proven track record of hiring Bermudians as their companies grow.

Sources: Department of Statistics, GDP and Employment Report 2008; Bermuda Monetary Authority, Annual Report 2020; BILTIR, 2019; BILTIR Member Survey, 2020

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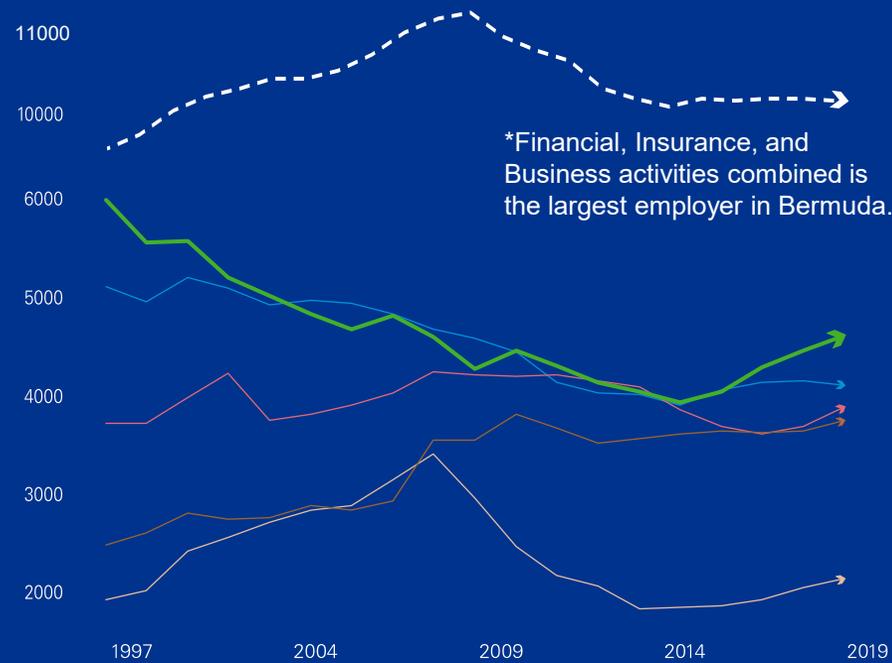
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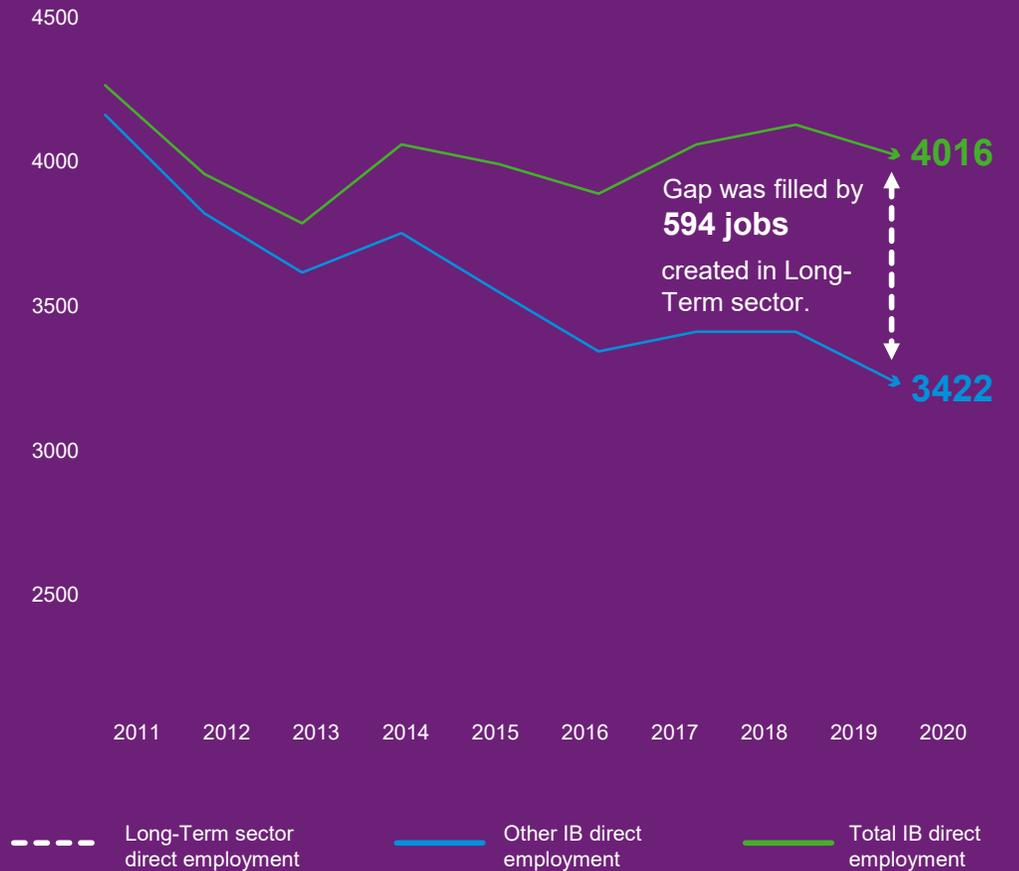
Historic Bermuda employment by sector



- Professional, Scientific, Technical, Financial, Insurance, Business activities, and services*
- Accommodation and food service
- Wholesale and retail trade
- Construction
- Public administration
- Education, health, and social work



In the past 4 years, the Long-Term sector has filled the gap created by the growing loss of jobs in the broader IB sector.



Source: Department of Statistics, Annual Employment Survey 1999-2019

Historic Bermuda GDP by sector

IB has almost quadrupled since 1997, helping to drive broader growth in the overall economy. More recently, the growth engine of IB has been the Long-Term sector.



*Includes the contribution of sectors such as education, arts, recreation, health, transportation, and communications.

Source: Department of Statistics, Annual GDP 2019 Highlights

IB history

Bermuda has a track record as a well-regulated international financial center (IFC), with an efficient and adaptive regulatory environment. Together, this allows the jurisdiction to provide options for investment in the global reinsurance space.

EVENTS

- Severe shortage of liability coverage in the US.
- Northridge Earthquake in the San Fernando Valley region in the County of Los Angeles.
- Hurricane Hugo impacts Southeastern US.
- Hurricane Andrew hits Florida and Louisiana.
- The Insurance Amendment Act, 1995 supports innovation in the insurance sector.
- Bermuda is a founding member of the International Association of Insurance Supervisors (IAIS).
- Proceeds of Crime Act passed bolstering Bermuda's reputation as a well-regulated IFC.
- A smooth transition of political power continues to support Bermuda's reputation as a stable jurisdiction.
- September 11 Terrorist Attack on US.
- Supervision of the insurance sector is moved to the Bermuda Monetary Authority, leading to a single regulator for the financial services industry and increased efficiency in oversight.
- Hurricanes Katrina, Wilma, and Rita strike the US.

SERIES OF GROWTH



IB history

EVENTS

- Bermuda signs its 16th MOU with overseas regulatory authorities and becomes one of three jurisdictions approved as a signatory to the IAIS' Multilateral MOU.
- In 2009, the BMA enacts regulations to facilitate the establishment of Insurance Linked Securities ("ILS") in Bermuda.

- Bermuda approved as a Qualified Jurisdiction by the National Association of Insurance Commissioners ("NAIC"), ensuring continued efficiencies in transactions of Bermuda re/insurers in the US market.

- Bermuda gains full equivalence under Solvency II, concluding a 6 year effort and making a pathway for Bermuda re/insurers to be on the same level playing field when competing for and writing business in the EU.

- Bermuda approved as a Reciprocal Jurisdiction by the NAIC, eliminating the requirement for Bermuda re/insurers to post collateral when facing US cedants, placing the jurisdiction on the same footing as those countries that have the benefit of a covered agreement with the US, including the UK.
- Bermuda achieves full implementation of BASEL III requirements, concluding a 4 year effort.

2010

- In 2012, **5 Class 4 reinsurers** (those with capital and surplus greater than \$100m) were added to the register, **bringing the total to 36**.
- **P&C consolidation** (Validus acquires IPC Holdings).
- In 2009, Athene Life Re is registered as a Class E Long-Term insurer.
- BILTIR is formed with 5 founding members (2011).

2014

- During 2015, the number of Class E **Long-Term insurers** registered in Bermuda **nearly doubles from 16 to 28**.
- **P&C consolidation peaks** Renaissance Re and Platinum, XL and Catlin, Axis and Partner Re, and Endurance and Montpelier (2015).
- The value of ILS listed on the Bermuda Stock Exchange reaches \$12b.

2016

- Between 2016 and 2019, the Long-Term sector's assets under management increased **240%** (from **\$196b** to **\$667b**).
- **10 new Class E Long-Term insurers** are registered in Bermuda.

2019

- Between 2017 and 2020, the total number of Class E **Long-Term insurers** (those with total assets of more than \$500m each) **registered in Bermuda almost doubles from 25 to 47**.
- The number of Class E Long-Term insurers registered in Bermuda (47) exceed Class 4 P&C carriers (46).
- In 2019, Long-Term sector comprises 56% of re/insurance sector (\$667b AUM)

From 2010, IB growth has largely been a result of the growing Long-Term sector

SERIES OF GROWTH

Multiple sources; see end page 7

Historic trajectory for IB companies in Bermuda



Global events drive the potential for capital growth in the re/insurance sector.



Bermuda's well respected regulatory environment, and existing hub of expertise, allow it to position itself to accept and grow this capital.



Rapid growth initially requires support through professional service providers. As the company grows there is a shift to direct employment, and the proportion of Bermudian staff on the company payroll grows.



Companies start with a small core team of executives and key business specialists to establish start-up companies.



Critical mass tends to attract similar start-ups and similar businesses are established, creating a hub of expertise in the sector.



Today there are approximately **160 Long-Term insurers** based in Bermuda, in large part due to Bermuda's Solvency II equivalence, reciprocal jurisdiction status by the NAIC, and the fact the jurisdiction is a recognized IFC.



These businesses drive employment and economic activity. When C-suite executives and key business unit leaders are based in Bermuda, the economic benefits are amplified through local direct spending, employment, and hosting business travel and conferences on island.



Companies begin to expand globally. Bermuda's high cost of living, labour market size, and immigration restrictions leads companies to consider other jurisdictions to expand their operations.



Relocation of business unit heads then accelerates growth of operations in other jurisdictions, further reducing direct employment and indirect employment of Bermuda-based business services providers.



Regulatory and first mover advantages can be eroded over time as other jurisdictions compete by replicating regulations.



Lack of long-term residency and desire for long-term investment in housing and education lead executives and their families to re-domicile back to home jurisdictions or to other jurisdictions. This can lead to entire business units being shifted off island and further loss of employment for Bermudian staff.

In some cases, key employees have returned "home" while continuing to work for the Bermuda company. The global shift to working remotely will likely become prevalent, potentially risking the relocation of Bermuda-based jobs and economic activity.



The 40 year history of the Bermuda IB sector provides insights to enhance future growth. BILTIR's proposals will assist the Long-Term sector in continuing to grow in Bermuda which will positively benefit the island and its residents.

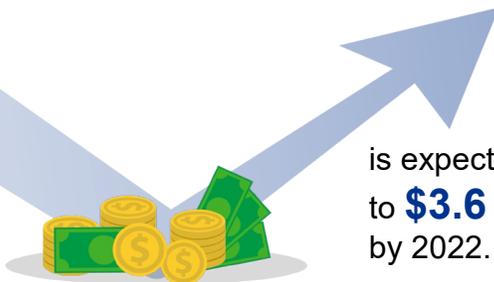
Global Long-Term sector market

TAKING ADVANTAGE OF GLOBAL TRENDS

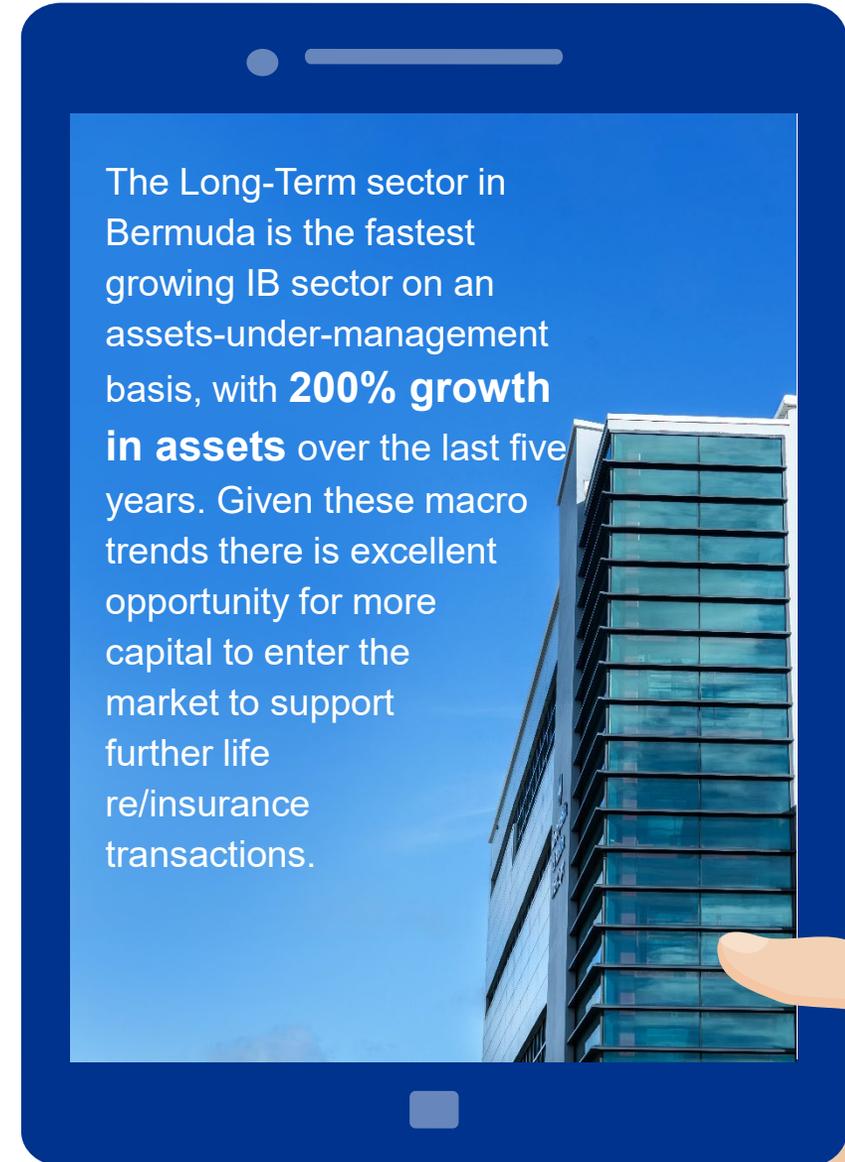
Three global macro trends are driving the growth in this sector:

- 1 As the **middle class continues to grow** in developing countries, so does the demand for financial instruments that can protect and continue to grow this new wealth.
- 2 At the same time, **aging western populations** are driving growing demand for life insurance **solutions to support retirement** and maintain and transfer wealth to the next generation.
- 3 Finally, in the **current low interest rate environment**, the main providers of direct life policies are seeking innovative solutions, including the reinsurance of legacy portfolios, to help release capital to provide solutions to new clients. BILTIR members have the proven track record to provide these solutions.

The global life insurance sector was valued at **\$2.9 trillion** in 2018, and



is expected to grow to **\$3.6 trillion** by 2022.



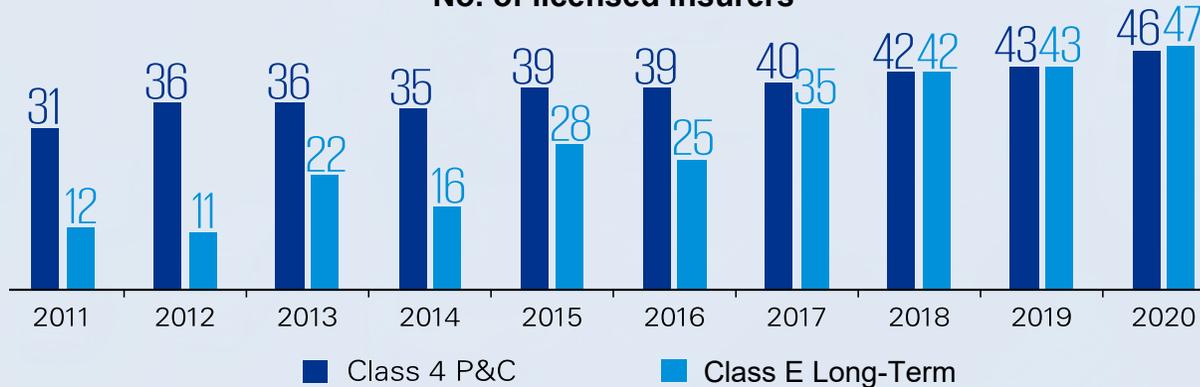
Sources: Bermuda Monetary Authority; Associated Press, 2019

Significance of the Long-Term sector in Bermuda

Assets under management of Long-Term insurers (C,D,E) (\$b)



No. of licensed insurers



Between 2011 and 2019 assets under management by the life sector **grew to \$667b**, larger than both the captive and P&C sectors combined.

During the same period the number of Class E Long-Term insurers, being the category denoting the largest carriers with total assets of more than \$500m, more than tripled.

*Class 4 is the largest license class of P&C re/insurers with at least \$100m in capital and surplus.

**Class E is the license class for Long-Term insurers total assets of more than \$500m.

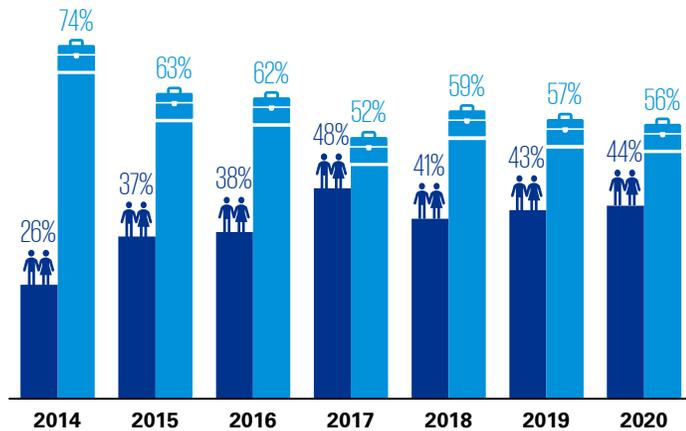
Source: Bermuda Monetary Authority, Annual Report 2020

Long-Term sector employment profile

Actual employment and backgrounds of three long-term insurers are presented to illustrate the growth trajectory of Bermuda-based companies.

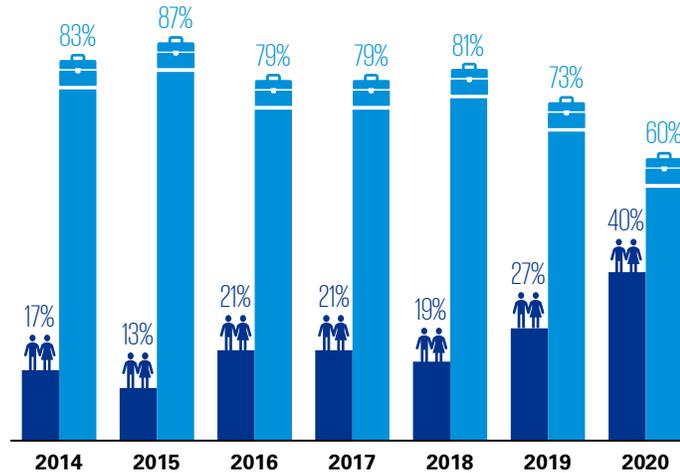
Established Bermuda Long-Term Reinsurer

This Company is one of Bermuda’s largest annuity reinsurance companies as measured by capital base and has received financial strength ratings of “A+” from S&P and “A” from A.M. Best and Fitch. As of June 30, 2021, assets under management (AUM) were \$188 billion. In 2014, the Company had 31 employees and **currently employs 97 Bermuda-based employees**. The Company has grown its employee base substantially since 2014, with an average of 20% increase year-over-year since 2019, and anticipates continued growth. The Company spends approximately **\$5.1 million on professional services** per annum.



Growth Phase Long-Term Company

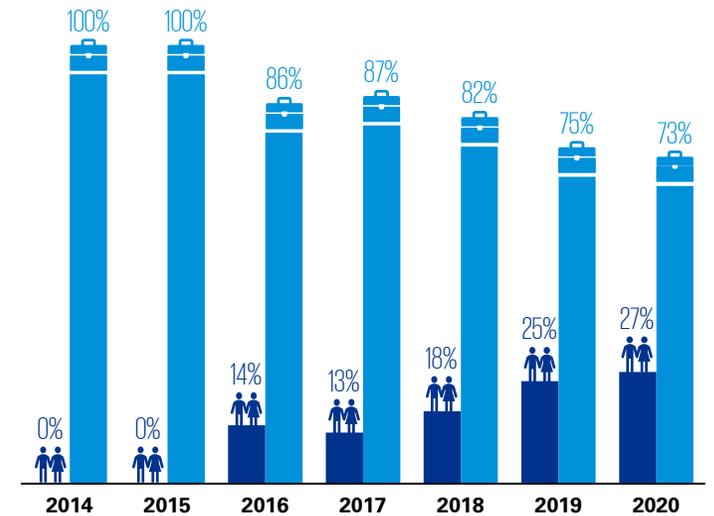
This Company has been in operation for just over 10 years. During that time, the company has grown from a single employee to nine employees in Bermuda, (5 are Bermudian) and has **\$9 billion AUM**. In the most recent financial year, this company spent **\$2.4 million** on professional services (which is equivalent to ~26 positions based on the median income for Financial, Insurance, and Business activities sectors).



Start-Up Long-Term Company

This Company started in 2014 with four expatriate employees. In 2020, this company **employed 22 Bermuda-based employees** (6 Bermudians).

Company management expects that it will hire approximately **26 new employees over the next three years** and anticipates the majority will be Bermudian hires.



Source: BILTIR Member Survey, 2021 .
Data is as of December 31, 2020

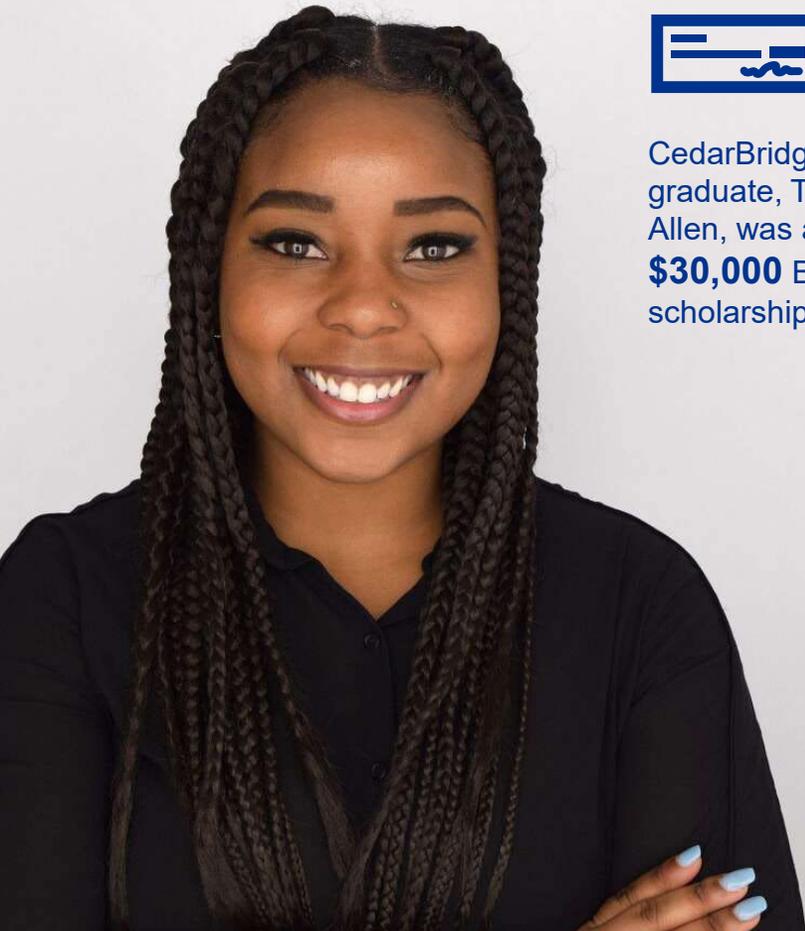


Bermudian, Spouse of Bermudian and PRC



Work Permit

BILTIR contributions to education and development of Bermudians



CedarBridge Academy graduate, Taiyana Allen, was awarded a **\$30,000 BILTIR** scholarship.

Ms Allen, 21, of Southampton Parish, will use the BILTIR scholarship to study at Georgia State University in the Dual Analytics Program, where she is completing a Master of Science in Data Analytics and a Master of Actuarial Science.

BILTIR members have also supported initiatives through volunteering, fundraising, sponsorships, scholarships, mentoring, and donations to local causes and schools.

Bermuda College: Career Development Centre and Scholarships

Athene Life Re Ltd.* announced a \$3.5 million donation to the Bermuda College Foundation to create a career development centre at Bermuda College.

The Athene Scholarship with Bermuda College is awarded to 10 students each academic year. The scholarships cover the full cost of each student's associate degree programme and required books. The programme supports students pursuing degrees in accounting, actuarial science, business, economics, finance, human resources, information technology, insurance and risk management, legal studies, or mathematics, and provides students with work study opportunities at Athene.

**Athene Life Re Ltd. is a subsidiary of Athene Holding Ltd. The donation was made together with Athora Holding Ltd., Aspen Insurance Holdings Limited, and Catalina Holdings (Bermuda) Ltd.*



More than **\$4 million** has been donated to deserving projects across the community during the past year by BILTIR member companies.

BILTIR companies have also supported more than **50 charitable initiatives**. In addition, BILTIR gave **\$50,000 to Bermuda Hospitals Board** and **Bermuda Community Foundation** in support of Covid-19 emergency funds.

Source: BILTIR; Athene Re, 2021

BILTIR and its members have partnered with the Ministry of Education and Workforce Development and schools to **sponsor math tutorials, career events, and a summer internship program.**

In 2018, BILTIR launched its **10-week internship** for Bermudian graduates, college, and university students. The internship provides students with an overview of the life insurance sector on the island. In 2021, nine insurers are participating and will provide summer internships to 11 Bermudians.



BILTIR offers a **12-week math tutorial program** for students at **CedarBridge Academy**. The program provides weekly study sessions that focus on the school's mathematics curriculum and exam preparation. The sessions are available to all students who want to attend after school and are led by employees of BILTIR member companies, typically with a finance background.

'Careers in Life Insurance and Reinsurance Industry' lunch and learns are hosted by BILTIR members in conjunction with the **Ministry of Education and Workforce Development** for secondary students.

BILTIR members' commitment to training and development continues in the work environment. A recent study found:

- 67% of companies provide **in-house training** including 100% reimbursement towards accreditation and technical skills.
- 83% of companies support the enrollment of their Bermudian staff in training.

Source: BILTIR

The new reality

COVID-19 has been the most significant disrupter in generations. While certain shifts in operating models and travel will begin to ease with herd immunity, there is a broad consensus that the new normal will include:



The proportion of work delivered remotely will increase.



With no need to go to an office, migration to lower-cost jurisdictions will be a lasting trend.



Business travel will recover at a slower pace than leisure travel and this will significantly influence airlines and hotels for whom corporate travelers contribute disproportionately to profitability.

These global trends, coupled with a reduction in Bermuda employment, will have a profound impact on Bermuda in terms of economic growth, local population, and jobs.

International tax authorities will continue to increase their efforts to pursue tax revenue through extra-territorial laws. Examples include the Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS), Base Erosion and Profit Shifting (BEPS), and the EU's Economic Substance Requirements (EU Substance). Although Bermuda does not have a corporate income tax, Bermuda corporations are subject to significant taxes and fees.



Long-Term insurers, with mind and matter in Bermuda, meet or exceed substance requirements and contribute to the local tax base.



Growth of the Long-Term sector creates an opportunity to expand Bermuda's role as an insurance **centre of excellence**, underscoring the validity of Bermuda-based business activities.



Other jurisdictions are a competing threat to Bermuda's Long-Term sector growth particularly in relation to underwriting risks from non-Solvency II jurisdictions e.g. North America.

Bermuda is facing increasing **competition to attract Long-Term insurers**.

BILTIR is proposing an approach which makes it more attractive for group executives, their families, and highly skilled professionals to relocate to Bermuda and to put down roots which encourage medium- to long- term growth of the Bermuda Long-Term sector. This will lead to a positive impact on job creation, local spending, and Government's tax base.

Source: NY Times, Economist, KPMG, etc

Growth trajectory

The Long-Term sector has the potential to significantly expand its presence in Bermuda, contributing to employment and GDP.



Long-Term sector job growth by number of employees



Source: BILTIR



Long-Term Sector Contribution to GDP

Impact of Enablers on Long-Term sector contribution to GDP (millions)



Conclusion

The Long-Term sector market in Bermuda is in its early stages. Registrations and assets under management have grown rapidly, and global trends point to further opportunities for growth. As Long-Term re/insurance companies grow and become established they have a track record of training Bermudians and growing their Bermudian workforce.

In the face of a growing trend of remote working following the recent global pandemic, we believe Bermuda should be proactive in ensuring that the trend in growing IB generally, and the Long-Term sector specifically, continues to translate into a growing Bermudian workforce as we have seen historically. By enacting enablers including expedited immigration approval, residency rights for senior positions, and improved local education in partnership with the private sector, this can provide the incentives needed to retain operations and jobs in Bermuda.

By building a permanent center of excellence in the growing global Long-Term re/insurance space, Bermuda can:

- make a positive contribution to improve corporate contribution to economic, social, and governance efforts globally;
- address growing global pressure to demonstrate economic substance;
- seize the opportunity to both preserve and increase the local population and tax base;
- expand employment opportunities for Bermudians in the IB and financial services sectors; and
- generate increased economic activity which will benefit every sector of the economy.

BILTIR's final comments:

- The Long-Term sector is a great growth success story for Bermuda for the last ten years and has further runway to continue to grow given global trends.
- In 2021 we are in a new reality; the cost advantages of remote working will challenge employment growth in Bermuda, and we believe proactive action is required to preserve the linkage between growing the sector and growing Bermuda-based jobs and economic activity driven by the sector.
- The opportunity is to leverage those companies that are already here to put down roots, and then encourage others to be long-term residents who invest in the community.
- BILTIR will support Bermuda and its growth and we look forward to a productive growth discussion with all stakeholders.

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