

BERMUDA: LEADING THE WAY

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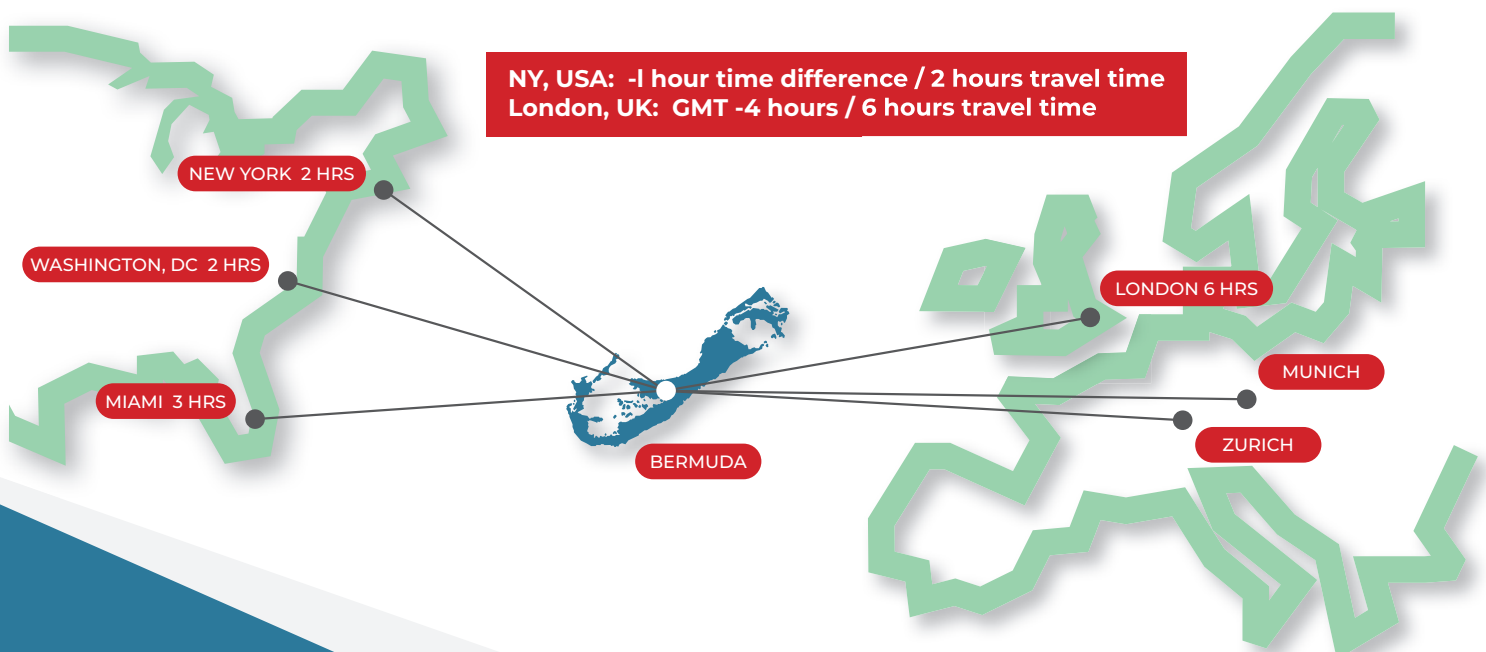
Bermuda remains the leading jurisdiction for the issuance of insurance-linked securities (ILS)



THE WORLD'S RISK CAPITAL

Bermuda has always been at the centre of innovation in the insurance and reinsurance world – we are the “World’s Risk Capital”. Bermuda has been the leading and fastest growing jurisdiction for the creation, support and listing of Insurance Linked Securities (ILS) since 2013.

With the outstanding catastrophe bond market size at \$41.9 billion at the end of the third-quarter 2020, the Bermuda Stock Exchange (BSX) is by far the world’s leading exchange for ILS, including listings from other jurisdictions, with 503 listed issuers and \$39.6 billion in market capital outstanding, representing almost 95% of market share of global ILS.



WHATS NEW?

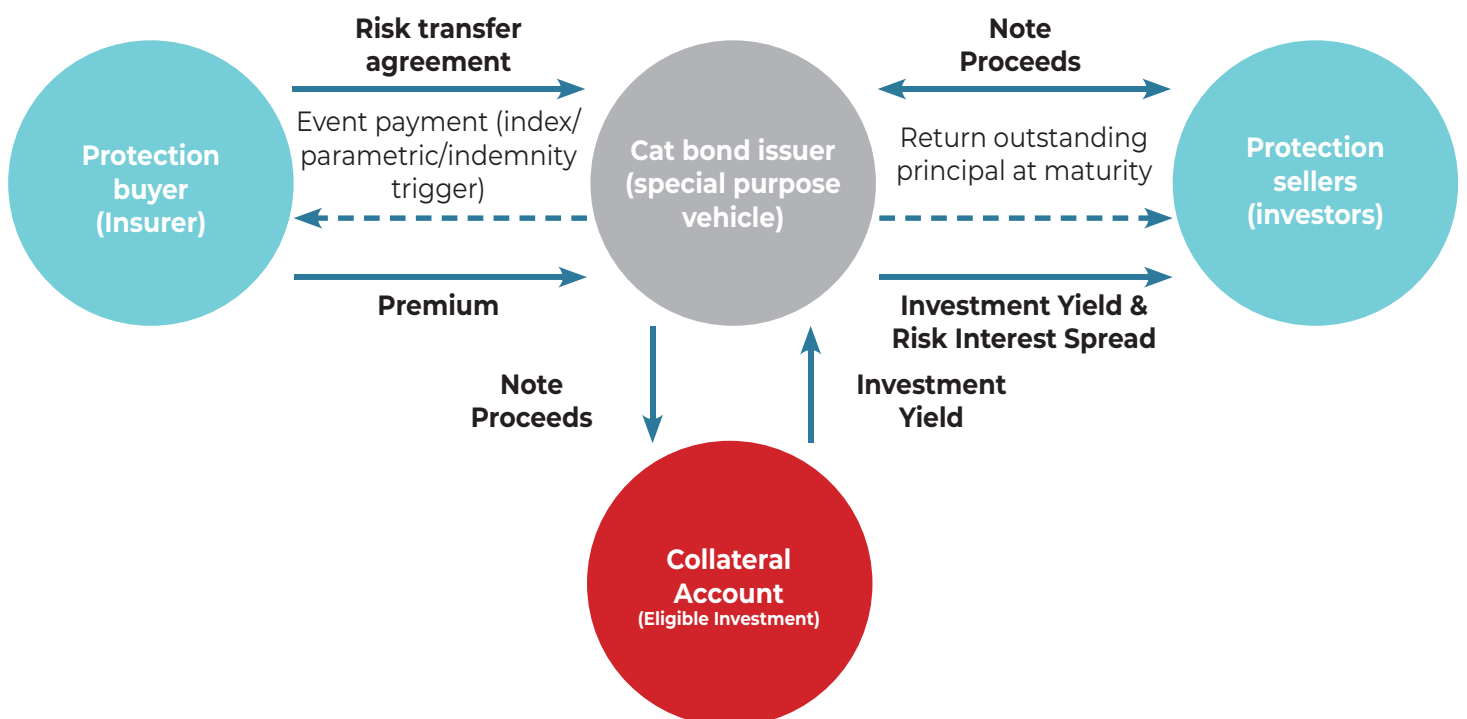
How does the new **Collateralised Insurer (CI)** fit into the Bermuda Monetary Authority (BMA) regulatory framework for the ILS sector?

The CI class is primarily driven by the need to introduce a dedicated ILS insurance vehicle with operational flexibility to cater for the continuing evolution and transformation of ILS products, structures, origination models, etc.

THE NEW CI CLASS WILL CATER FOR COMPLEX ILS STRUCTURES AND DEALS INCLUDING:



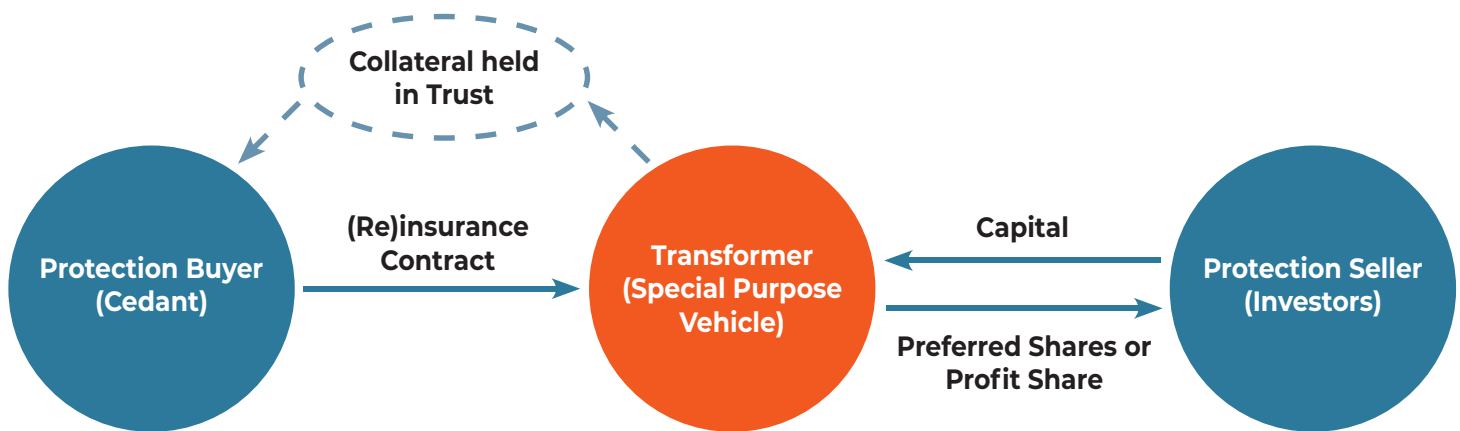
CAT BOND STRUCTURE:



HOW DOES COLLATERALISED RE-INSURANCE WORK

Collateralised (re)insurance facilitates the transfer of insurance risk (and return streams) into capital markets investor portfolios. The underlying (re)insurance contract is between the cedant and a special purpose insurance vehicle (“SPV”), and the key differentiating feature from traditional (re)insurance is that the obligations of the SPV to the cedant are collateralised by assets held in a trust account. These assets are typically invested in liquid near risk-free assets, and the collateral at any time during the exposure period of the contract is equal to the (remaining) contract limit.

Illustration: Structure of a collateralised (re)insurance transaction



The assets in the trust come from a combination of the premiums paid by the cedant and capital provided by the protection seller. In a cat bond structure, the SPV issues bonds to the fund or investor in exchange for cash that is placed in the trust. In more general collateralised (re)insurance structures, the SPV may issue short-term preference shares in exchange for cash, or even be provided with the necessary cash under a swap agreement with the fund or investor.

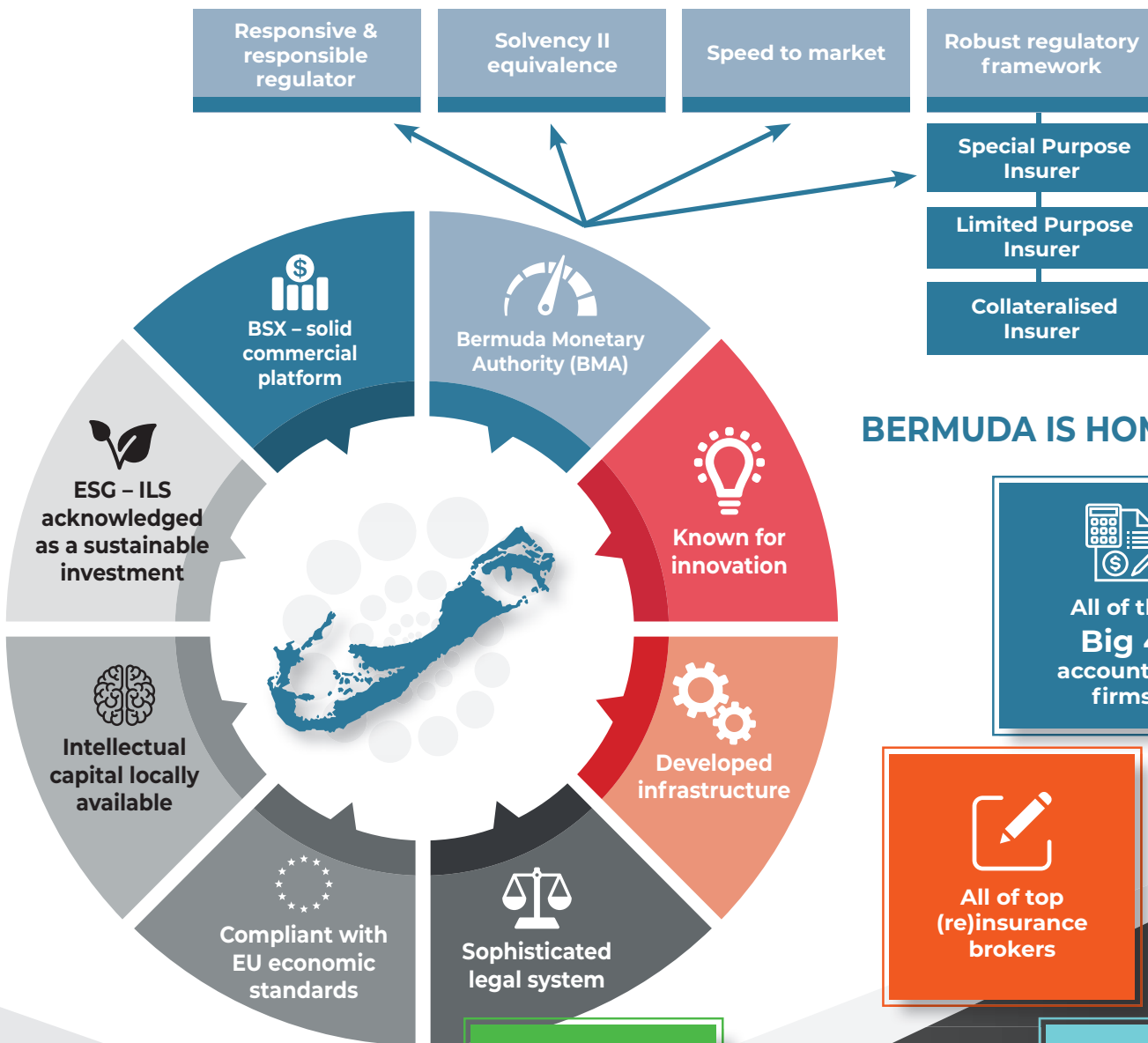
If no losses occur, the collateral assets capital, premium plus investment incomes in the trust account are returned to the fund/investor.

If a loss event impacts the underlying contract, part or all of the collateral will be transferred to the cedant in payment for insured losses. At a point when losses are finalised, there is a return to the fund or investor of remaining assets in the trust.

Bermuda is the preferred jurisdiction for setting up an ILS fund

Bermuda is the most popular jurisdiction for ILS market participants

WHAT SETS US APART



BERMUDA IS HOME TO:

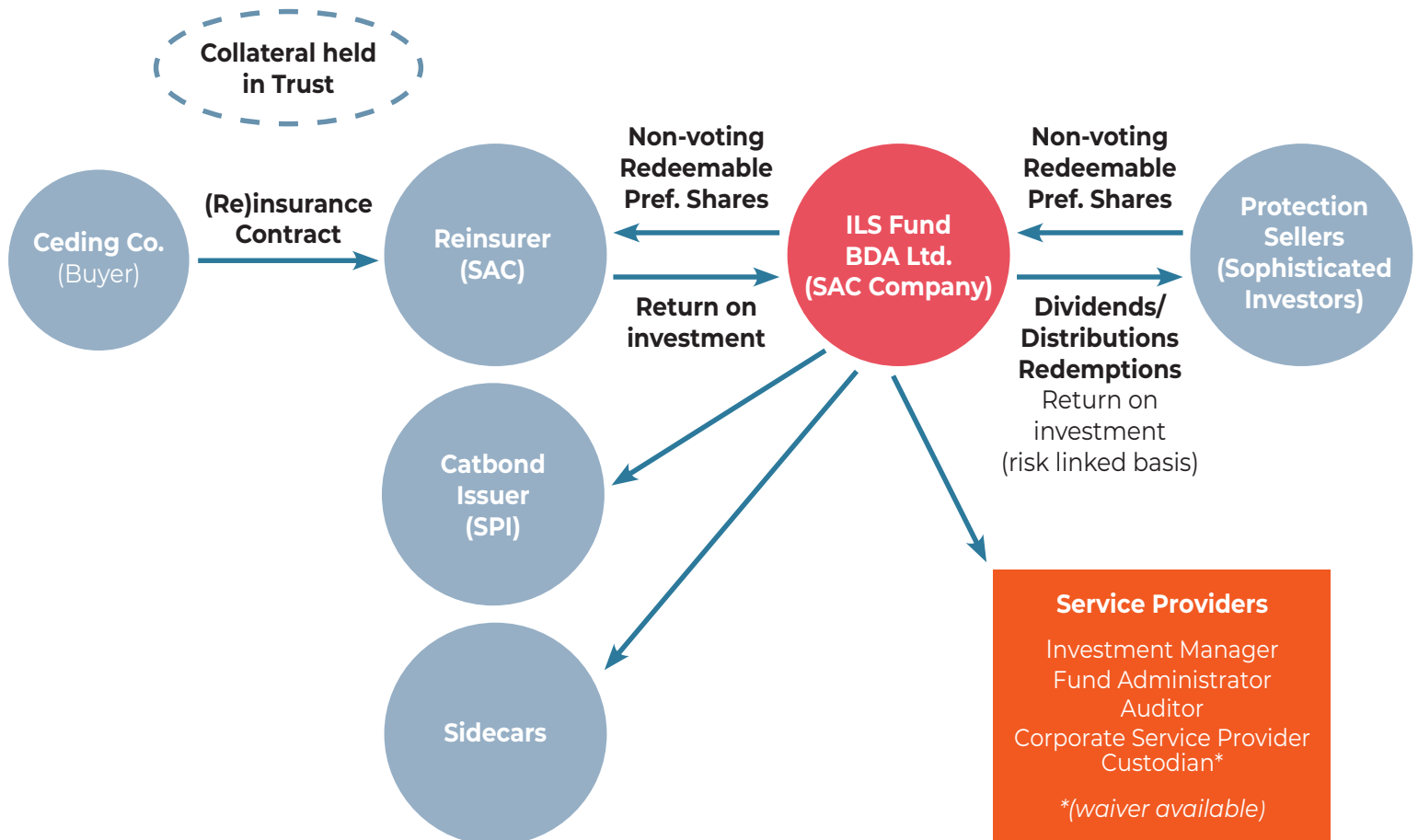
“ Our ability to continue to provide a solid commercial platform supported by world class infrastructure and a well respected regulatory framework will ensure that Bermuda remains at the forefront of this market and its transformation for many years to come.” Greg Wojciechowski, CEO, BSX ”

SETTING UP AN ILS FUND

Bermuda is the preferred jurisdiction in which to set up an ILS fund and many of the top 10 ILS fund managers have a physical presence on Island.

An ILS fund can be set up as a standalone fund, as per Diagram 1 below, or as a master/feeder structure as per Diagram 2 depending on the investors' needs. These are often registered pursuant to the Segregated Accounts Companies Act which permits a company registered thereunder to operate segregated accounts enjoying statutory divisions between accounts. The most significant aspect of a segregated accounts company is that such a company is able to contract with a creditor or a shareholder so that the assets transferred by that person are held by the company in a segregated account solely in respect of the liabilities of that account and thus are insulated from any claims of the general creditors or the creditors of other segregated accounts.

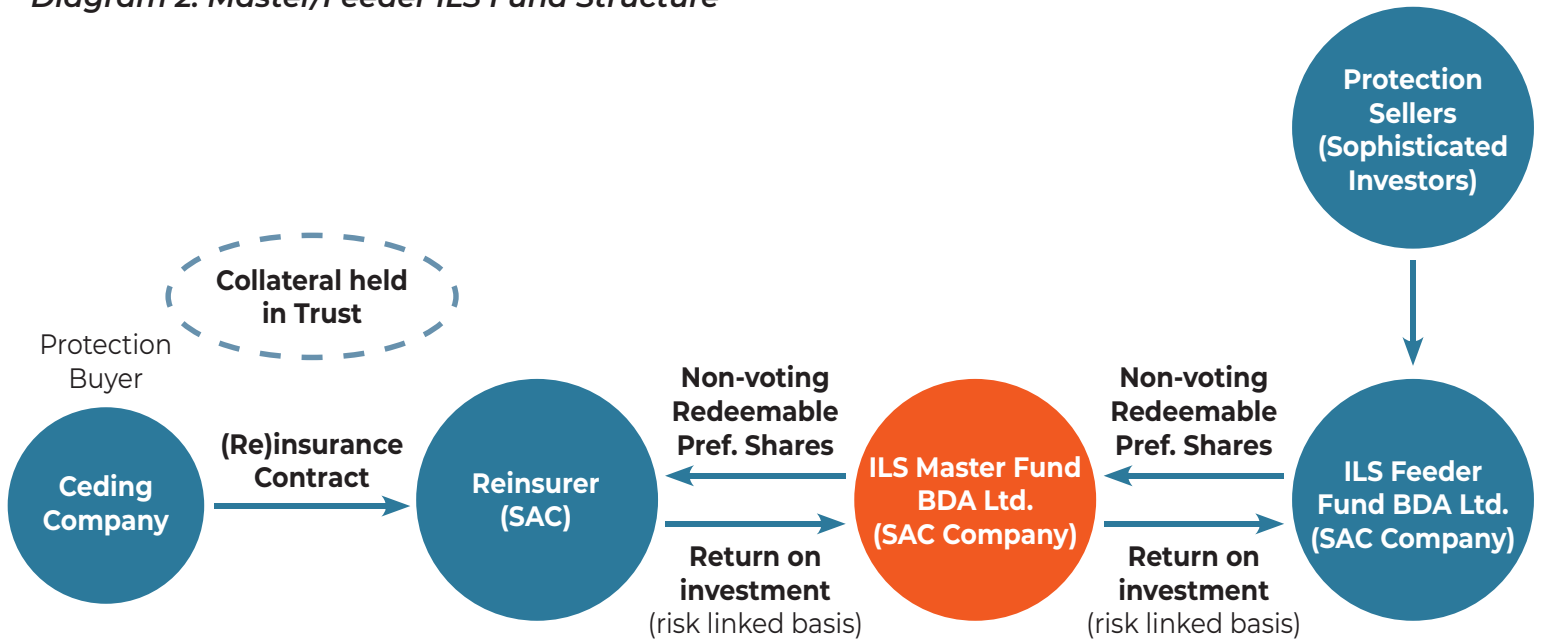
Diagram 1: Standalone ILS Fund Structure



Advantages: Largely uncorrelated portfolio diversification

SETTING UP AN ILS FUND CONT.

Diagram 2: Master/Feeder ILS Fund Structure



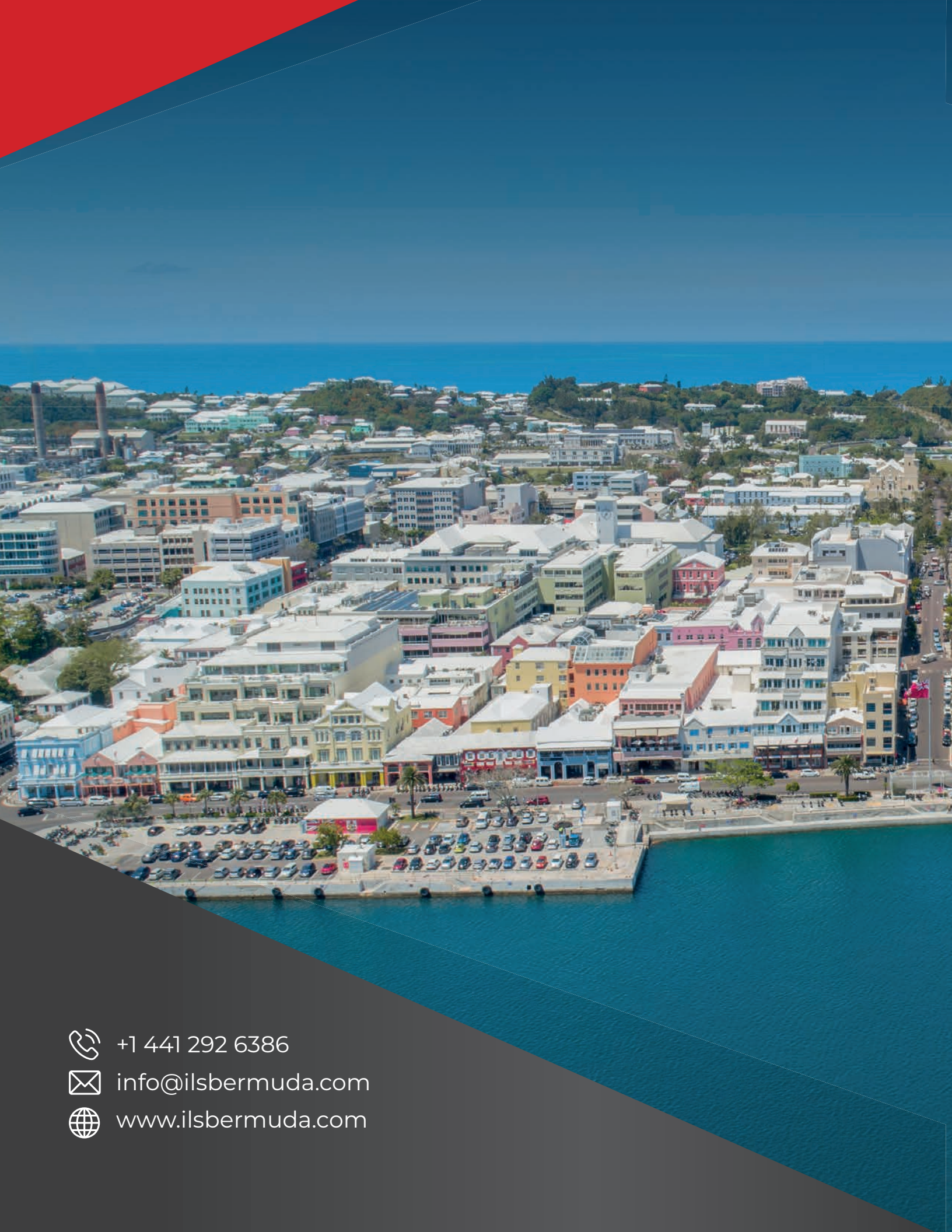
ILS funds can invest in a diversified portfolio of insurance linked instruments, including cat-bonds, industry loss warranties ("ILWs") and a variety of opportunistic reinsurance products. The total AUM of global ILS investment managers is almost \$100 billion.



The advantage of setting up an ILS fund in Bermuda is that the formation process is streamlined and the regulator understands the structure as it is the same body that oversees the insurance sector, namely the Bermuda Monetary Authority.



ILS funds are typically open-ended however, given the nature of the underlying investments, they do build in provisions to address practical liquidity issues including drawdown provisions, lock up periods, slow pay provisions and designated investments. ILS investors include pension funds and sovereign wealth funds.



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