



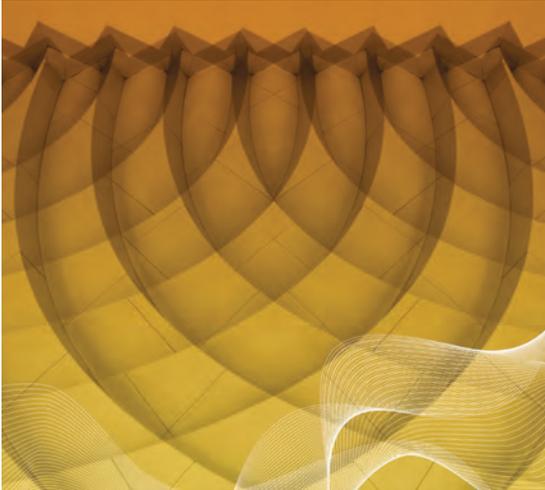
Suzanne Sadlier and Nicola Hallett

DIVERSIFYING THE LIFE REINSURANCE OPERATING STRUCTURE

Offshoring Life Reinsurance in Bermuda
and Cayman

Artex

Alternative
Risk



PERSPECTIVES: FUTURE-PROOFING THE OFFSHORE LIFE REINSURANCE SECTOR

The past few years have seen a robust increase in the growth of offshore life reinsurance markets, most notably in Bermuda and Cayman. US life insurers alone have ceded life and annuity business backed by around \$800 billion in reserves to offshore reinsurers since 2017, according to Moody's. In particular, there has been increased activity by life insurance groups setting up affiliated reinsurers in Bermuda and Cayman while the interest rate environment has been a major challenge for life insurance entities, given the long-tail nature of the business and how it impacts their asset management strategies. Ceding to an offshore reinsurer allows insurers to benefit from greater capital efficiency and control around capital management. Demographics have also been a major driver with a growing middle class having a demand for life and savings products and an aging population seeking retirement solutions.

Beyond the obvious financial incentives, Bermuda and Cayman offer numerous draw cards as life reinsurance jurisdictions, both in the current climate and moving forward. This includes a concentration of expertise in one place, a reputation for innovation and prudent yet responsive regulatory regimes.

This update considers the key drivers behind the recent growth in offshore life reinsurance against the backdrop of an evolving risk landscape and challenging macroeconomic environment. As life insurers, pension providers and other stakeholders grapple with an uncertain set of economic and demographic challenges, offshoring has come of age as an essential tool in the risk financing tool set, helping absorb some of the volatility within the sector.

“Cayman has a robust regulatory regime and a proximity to expertise that is hard to replicate elsewhere. In terms of access to the service providers we partner with, there is a closely knit network of professionals who cross paths daily. The connectivity and accessibility around the respective jurisdictions is a key differentiator when compared to scaled-up markets where the operating dynamic is different.

The closeness of the community makes it more straightforward to manage the end-to-end process for a transaction, from company formation and obtaining regulatory approvals to the ongoing management, you have easy access to the people you need to ensure your business is operating optimally and within the regulatory framework.”

Suzanne Sadlier,
Managing Director, Artex Risk Solutions
(Cayman) Limited

BERMUDA AND CAYMAN: DISTINCTIVE ATTRIBUTES

The islands of Bermuda and Cayman may be geographically small in size, but both punch well above their weight when it comes to sheer concentration of knowledge, expertise and frameworks for servicing the life re/insurance space.

Bermuda is a respected global hub for insurance capacity, with over 350 property and casualty and life insurers, life reinsurance being one of its fastest-growing sectors in recent years. With equivalence with the EU’s Solvency II regime and deemed by the National Association of Insurance Commissioners (NAIC) as a qualified jurisdiction with reciprocal jurisdiction status, Bermuda captures life reinsurance business from the US, UK and Europe and, in recent years, the Asian markets, where there has been increased demand for life and savings products. In Bermuda, the life sector is now the largest insurance sector by assets with more than \$800 billion in assets under management as at October 2022.

Cayman meanwhile is one of the world’s most efficient and well-recognized international financial centers, and has seen significant traction from US-based life insurers seeking to set up affiliated and unaffiliated reinsurers. The breadth of its financial services sector and expansive net of service providers is an important element that sets the jurisdiction apart. For example, the Cayman Islands is the leading domicile for investment funds, attracting 80% of all new offshore fund formations. Cayman is estimated to house more than 75% of the world’s offshore hedge funds and nearly half of the industry’s estimated US\$1.1 trillion of assets under management.

EASE OF SETUP

On average, it takes around six to eight weeks for regulatory approval for an offshore life reinsurance company, which reflects the responsiveness of the Cayman Islands Monetary Authority (CIMA) and Bermuda Monetary Authority (BMA). It is a thorough process and one where all parties are aligned. The starting point is a vigorous onboarding process aligned to the highest AML/CFT standards and affording reassurance to all stakeholders for the protection of their interests. During the setup period, the fundamentals of the company are set out in detail, including risk management and underwriting, the governance framework, financial projections, and asset management.



“Artex is well positioned to advise and support an entity looking to form and license their reinsurance operation in Bermuda and/or Cayman. Artex has a long-standing presence in both jurisdictions, and has strong relationships with the regulators and the reinsurance industry generally.

We can manage and guide you through the end-to-end process, from formation and licensing through to the operational management requirements for your reinsurance entity.”

Nicola Hallett
Managing Director, Artex Risk Solutions
(Bermuda) Limited

There is flexibility and efficiency built within the laws and regulations. The regulators are approachable, responsive and attuned to the commercial needs and business objectives. This opens up a productive dialogue and an ability to ensure alignment in understanding.

This inherent flexibility is a key differentiator in comparison to what can be a more prescriptive approach elsewhere. This doesn't mean that CIMA or the BMA won't push back on something that they perceive as having an unacceptable risk tolerance level. But as a starting point, this collaborative approach fosters innovation such as the growth of insurance-linked securities (ILS) and the cat bond markets.

OFFSHORING IN AN ERA OF UNCERTAINTY

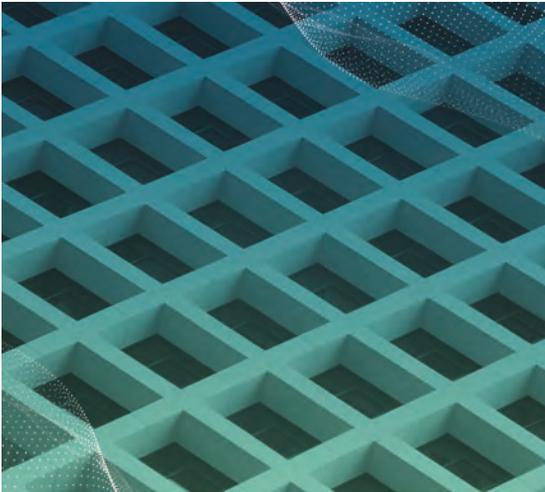
The decision to set up an offshore reinsurer is not purely motivated by regulatory or accounting differentials. And there is no immediate indication that demand for offshore life reinsurance solutions will taper off amid rising interest rates, which suggests capital relief is just one consideration among other risk financing requirements.

Life insurers use offshore reinsurers for a number of reasons, which vary depending on the carrier and their objectives. Generally speaking, cross-border transactions can generate efficiencies in capital management. And with differing statutory reserving requirements from one jurisdiction to the next, this can free up capital to be reinvested in the business.

But the need for risk transfer is a long-term play. Mortality, morbidity and longevity trends are evolving, with demand for new and alternative risk transfer solutions. The global pandemic altered perceptions around the risk of infectious disease in a world that is increasingly fragile and interconnected. Life and non-life reinsurers absorbed tens of billions of dollars of loss in relation to the pandemic, resulting in a subsequent hardening of markets amid increased demand for reinsurance protection.

Meanwhile, changing demographics are seeing an increase in life expectancy and the growth of middle classes in developing regions, such as Southeast Asia, with consequential demand for life and health protection products. The general trend is that populations are living longer, healthier lives. This, along with shrinking birth rates, presents a challenge for pension plans in terms of how they continue to service their obligations into the future.





The ability to cede risk to reinsurance companies helps insurers manage exposures better at a portfolio level, while also reducing how much capital they need to hold in reserve. It allows them to better focus on servicing their core business while pursuing growth and diversification opportunities. Thanks to new structures, reinsurers also have the option to offset or transfer some of their more extreme liabilities to capital markets through innovative ILS transactions (such as longevity swaps and catastrophe bonds).

CLOSE WORKING PARTNERSHIP WITH REGULATORS

For their part, CIMA and BMA continue to fine-tune their supervision of the life reinsurance space, in close collaboration with NAIC and the European Union and other supervisors, in an effort to future-proof the sector. All these jurisdictions—US, Europe, Cayman and Bermuda—follow the standards set out by the International Association of Insurance Supervisors (IAIS), with regular dialogue to ensure the regulators are aligned on practical cooperation around their interpretation of the rules.

In February, BMA announced a series of enhancements to its supervisory regime for long-term commercial insurers and reinsurers, a move which was welcomed by Natasha Scotland Courcy, chair of the Bermuda International Long Term Insurers and Reinsurers (BILTIR), who said the new rules would “further protect our life and annuities policyholders and cedants.”

CIMA, meanwhile, has in excess of 52 bilateral agreements internationally for information sharing and cross-regulator cooperation. It has also recently enhanced several regulatory measures including on asset management, reinsurance, internal controls and governance.

The industry here is not looking for light-touch regulation. It has asked for a robust regulatory framework but with an appropriate degree of flexibility to enable the right level of commerciality. The BMA and CIMA provide conducive regulatory environments to enable the successful growth of the industry in Bermuda and Cayman, where the demand for a diversified operating structure continues to flourish.



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ABOUT ARTEX

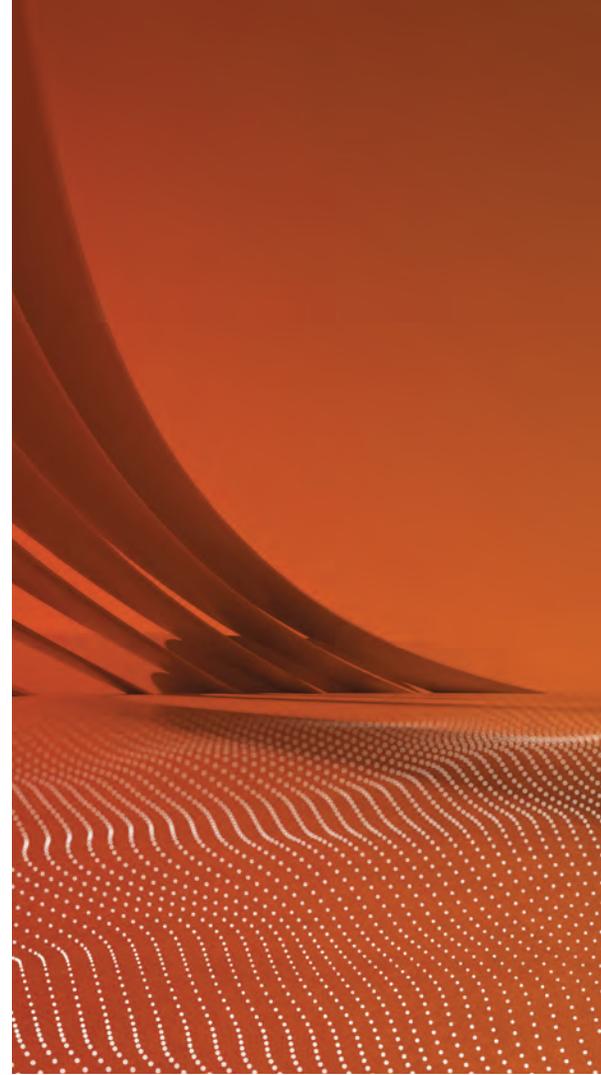
Artex is an established presence in Bermuda and Cayman, providing specialist advice and guidance for re/insurance operations and investors looking to establish a presence in one or both jurisdictions. Our expert teams have extensive capabilities in Bermuda and Cayman with experience in forming, licensing and supporting life reinsurance operations, and can provide an end-to-end solution or develop a tailored solution to meet specific commercial requirements.

Working in close partnership with regulatory bodies in both jurisdictions and with a deep understanding of international regulatory environments, Artex has a diverse client base from the reinsurance sector representing multiple jurisdictions, product types and risk transfer mechanisms.

Capabilities include:

- Formation/Licensing
- Governance, risk, compliance
- Financial accounting
- Administration
- Regulatory filings
- Internal controls
- Actuarial support
- Treasury services

For more information on Artex and our specialist life reinsurance capabilities, visit artextrisk.com



THE ART OF RISK

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance and ILS solutions, our global team operates at the intersection of art and science—where creative thinking meets expertise and superior outcomes are made. That’s how we’re able to fully understand our clients’ needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we’re here to help you make empowered decisions with confidence, reduce your total cost of risk and improve your return on capital. At Artex, we believe in finding you a better way.

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