‘The Island is Calling Life Insurers’

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Interest among US life insurers in capital-release through reinsurance in Bermuda is spiking. The opportunities are described in this guest column by actuaries Nick Komissarov and Faisal Haddad of Willis Towers Watson.

US life insurers, faced with the impact of continuing low interest rates on product performance, are increasingly wrestling with the question: Should we send business to Bermuda?

The answer is, like so many questions in life: It depends.

Bermuda is a well-known and well-respected global hub for reinsurance capacity. Historically, it has been dominated mostly by the property and casualty (P&C) line of business, but given recent regulatory developments, the number of life and annuity reinsurers on the island has increased as well.

And there’s no denying that Bermuda has a lot going for life insurers — beyond its weather and beaches. Around $900 billion of assets under management, of which about 50% is life business, is testament to that. More than 1,200 companies and captives, of which about 30% are life-focused, are active on the island.

Deciding factors

A big plus is the regulatory environment, overseen by the Bermuda Monetary Authority (BMA). As well as having Solvency II equivalence, it is also a National Association of Insurance Commissioners reciprocal jurisdiction. The risk-based capital requirements that capture the economics of an insurance business typically make it a capital-efficient regime compared with the more formulaic capital calculation approaches prevalent in the U.S., and one where the economic regulatory view reflects insurers’ risks. Bermuda is also a center for insurance-linked securities (ILS), which is playing an increasingly important role in the life segment. While less mature than the larger P&C segment, ILS is becoming an important provider of capital for life insurers and is set to grow further in the coming years.

Throw in the BMA’s straightforward and streamlined licensing process, and its track record of support for start-up insurance businesses, and you have a seemingly rich cocktail of factors working in life insurers' favor.

But that doesn't mean it's a shoo-in decision for all blocks of business. Bermuda is not a magic place where unprofitable business turns profitable.

As a general rule, a Bermudan base is most advantageous for new vintages of business that reflect the recent economic environment in their pricing — that is, they've priced in low interest rates. For back books, that were priced on and included guarantees based on historically higher interest rates, the case tends to be weaker. More often than not, the current profitability of the business is the deciding factor.

How it works

So if a US life insurer has a block of business that it thinks may look and perform better in Bermuda, how does it work?

ILS market-excepted, legacy transactions are the main vehicles although there has been a recent surge in flow reinsurance transactions as onshore cedants and regulators are becoming comfortable with Bermuda. The latter involve a quota share reinsurance contract where the U.S. entity cedes a proportion of the business block to a Bermudan reinsurer. This works on the basis that the broader asset strategy options available and the more accessible economic capital regime can make its product offerings more competitive.

In the process, it can benefit from Bermuda's capital-efficient economic balance sheet framework and discount reserves using real-world valuation scenarios, all the while continuing to use US GAAP for Bermuda statutory reporting.

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