

A Class B licence will also apply to single-parent and multi-owner long-term captives writing no more than 20 percent of net premiums from risks which are not related to, or arising out of, the business or operations of their owners and affiliates.

Class B insurers are required to maintain minimum capital and surplus of \$250,000.

### THE SOLVENCY REQUIREMENTS

The minimum solvency margin requirements for General Business represent the greater of the minimum capital and surplus, the premium test or the loss test as shown in the following solvency table.

CLASS OF INSURER	1	2	3, 3A & 3B	4
<b>Greater of: Minimum Capital and Surplus</b>	120,000	250,000	1,000,000	100,000,000
<b>Premium Test First \$6 million of Net Premiums Written</b>	20%	20%	20%	50% (1)
<b>Net Premiums Written in excess of \$6 million</b>	10%	10%	15%	50% (1)
<b>Loss Test/Loss and Loss Expense Reserve</b>	10%	10%	15%	15%

(1) For Class 4 insurers, test is 50% of NPW with maximum deduction for reinsurance of 25% of GWP

### The Statutory Financial Statements

Insurers are required to prepare annual financial statements in the prescribed form. For Class 1 insurers, these statements must be available at a company's principal office within six months after the end of its financial year. For Class 2 insurers, these statements must be filed with the Bermuda Monetary Authority within six months after the end of the financial year. For Class 3, Class 3A, Class 3B, and Class 4 insurers, these statements must be filed with the Bermuda Monetary Authority within four months after the end of the financial year. For Long-Term insurers, these statements must be filed with the Bermuda Monetary Authority within four months after the end of the financial year.

## **The Statutory Financial Returns**

Insurers are required to file annually, with the Bermuda Monetary Authority, a statutory Financial Return. For Class 1 and 2 insurers, the returns must be filed within six months after the end of the financial year. For Class 3, Class 3A, Class 3B, and Class 4 insurers, these returns must be filed with the Bermuda Monetary Authority within four months after the end of the financial year. For Long-Term insurers, these returns must be filed with the Bermuda Monetary Authority within four months after the end of the financial year.

## **The Captive Industry in Bermuda**

The captive insurance business played a founding role in the development of the Bermuda Insurance Market and remains one of its best-known core activities, providing nearly \$20 billion in gross written premiums annually in recent years.

The bulk of Bermuda's captives are US-owned entities, often used to insure and reinsure retentions on general liability, auto liability, workers compensation, property and marine programs and to access the reinsurance markets.

Many are single-parent captives, insuring only the risks of their parent and affiliates. Other types are group-owned or association captives formed by members of a common industry and agency captives, so called because they are owned by insurance agents and often used in quota-share arrangements to reinsure business written by the agents.

Since the early 1990's, one of the fastest-growing categories has been that of healthcare or medical malpractice captives. The US-based ownership of these captives is diverse, ranging from groups to single-parent, from tax exempt hospitals to for-profit health maintenance organizations and physician- controlled entities. Some US healthcare providers see the captive vehicle as a means of offering competitive professional liability coverages, while others use their captives to fund for the capitated risks they assume and for access to provider excess and HMO stop-loss reinsurance.

The United States is the biggest, single source of captive business for Bermuda, accounting for some 60 percent of the Island's insurance formations. But the picture is changing. New source markets are beginning to emerge in Africa, Australia, the Far East, the Pacific Rim and Latin America as risk managers abandon traditional insurance buying practices and increase their self-insured retentions.