



# The surging potential of life re

*The groundwork of winning cedant confidence and building track record are set to be as important as investment and innovation in capitalising on Bermuda's life reinsurance potential, says Damian Cooper of PwC Bermuda.*

As capital flows in and registrations soar, Bermuda has emerged as a leading global centre for life reinsurance.

With assets of \$300 billion, the life sector is now the largest insurance sector by assets in Bermuda, according to Bermuda International Long Term Insurers and Reinsurers (BILTIR). While this \$300 billion owes much to the large asset holdings that are part and parcel of life business, the pace of new registrations—15 new life licences issued by the Bermuda Monetary Authority (BMA) in 2018—marked the greatest year-on-year growth across all insurance sectors.

Why the upsurge in growth? Bermuda has found itself in the right place, with the right people, at the right time.

Globally, the direct life and pensions market is growing rapidly on the back of an ageing population and the scaling back of state welfare. Life insurers are looking to reinsurers to help them transfer risks including longevity and income guarantees so they focus capital on these new business opportunities.

The pincer of regulation and low investment yields has heightened life reinsurance demand by increasing the capital requirements for life and pension risks and making it harder to fund the guarantees. Direct writers are especially keen to seek reinsurance solutions that enable them to offload and aggregate the guarantees built into policies before these new rules came into force and where portfolios have been closed to new business as a result.

### Pragmatic regulation

Bermuda's big draws include a pragmatic regulatory environment and National Association of Insurance Commissioners (NAIC) and Solvency II equivalence. BILTIR should also be commended for its ability to collect feedback from market participants and enable them to engage with the BMA with one voice as far as possible. This dialogue has helped to build solid foundations for registration and regulation.

### Growing talent pool

Bermuda benefits from a strong and growing talent pool within the life insurance and reinsurance market. There are now more than 500 Bermuda-based staff working in the sector, according to BILTIR, with 40 percent of these employees being Bermudian or the partners of Bermudians, which highlights the firm roots the sector is putting down. We also have a strong bedrock of legal, advisory and outsourcing support.

This combination of in-house and third-party expertise is enabling Bermudian life companies to develop innovative,

flexible and efficient solutions stretching from bespoke risk coverage to run-off portfolio management. This expertise is also enabling structures to evolve, which includes adapting to the changes in tax arrangements for reinsuring onshore affiliates.

### Wide client base

These attractions are reflected in the broad spread of reinsurance entrants and business coming into Bermuda, geographically and in terms of risk focus. Registrations over the last few years reveal companies focusing on Asia, Europe and North America. There have been major deals carried out across longevity risk and the variable annuity market, and insurers worldwide are exploring ways to consolidate and manage their risk through a Bermuda vehicle.

### Sustaining the momentum

How then can market participants sustain this growth? Capital inflows and associated capacity continue to increase in step with demand. Sources of investment include private equity and sovereign wealth funds, but capacity is only one part of the equation.

As reinsurers set up in Bermuda and seek to expand their operations, they need to win cedant confidence. That requires clarity over business models and product offering. It also requires a track record—so there is the chicken and egg challenge of securing the initial deal that will help to attract other clients.

Efficiency rather than innovation is likely to be the key to getting over this all-important first hurdle. Cautious cedants are reluctant to be the guinea pigs for new models and untried solutions, and their risk aversion is heightened by the reputational sensitivities surrounding life and pensions business. Any slip-ups could not only bring down regulatory sanctions but also affect their ability to attract new business.

That is not to say there is no place for innovation—this is very much part of Bermuda's future success in this sector—but it can come into play only once companies have demonstrated their capabilities.

This is a very exciting time to be working with life reinsurers here in Bermuda. The coming together of capability, capacity, and global demand means we're likely to see a continuing acceleration in growth. The companies that will reap the dividends know they need to build up a foundation of trust before they can realise the full potential. ■



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