

Bermuda Market Review

March 2022

Perfectly placed and moving forward

Bermuda has long occupied a preeminent position in the global insurance and reinsurance market, supporting the needs of the largest and most complex businesses and their risks.

With carriers across many global markets reducing their capacity, Bermuda's role in delivering blue-chip capacity has never been stronger. The Bermuda market offers a sophisticated blend of a mature but innovative regulatory framework, substantial capital and global access combined with strong links to the US.

In addition to that potent mix, Bermuda is also home to some of the industry's most knowledgeable risk transfer expertise. That's why I'm so excited to be leading such a hugely talented team that's steeped in Bermuda market relationships and deep insurance industry expertise.



WTW has been part of the fabric of the Bermudian market for over 35 years. The strength of the team's capabilities and excellent client relationships are the foundation that positions the Bermuda team with an exciting future as part of WTW's global offering.

This review takes a brief look at the Bermuda market from our perspective and reveals a market perfectly placed to offer complex risk solutions to the world's largest companies. More than ever, we are committed to building innovative and effective risk transfer solutions for our new and existing clients in casualty, property, financial lines, and healthcare.

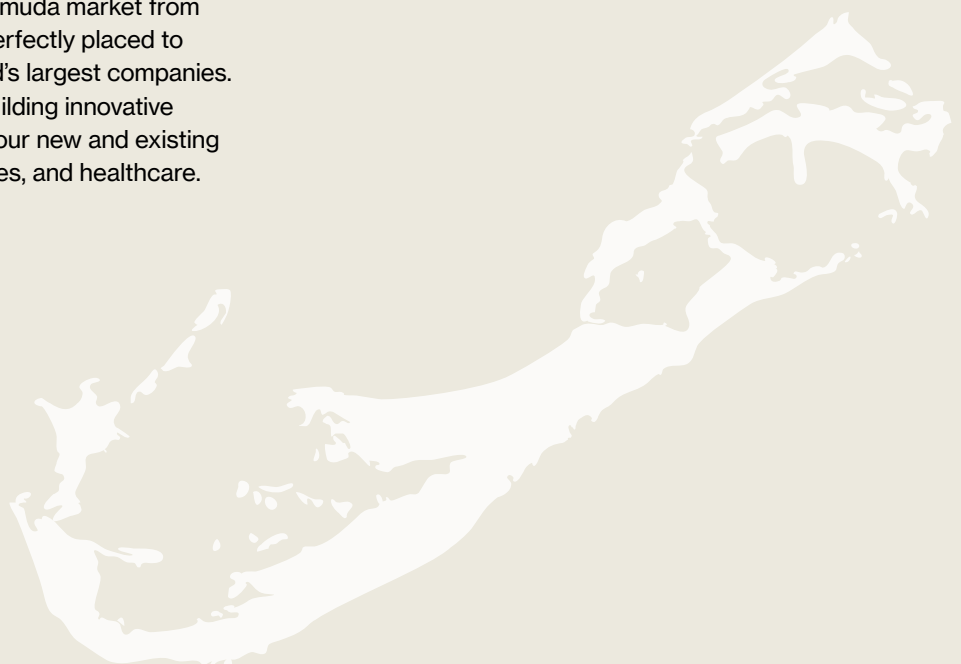
We look forward to working with you,

Kirsten Beasley
Head of Office, Bermuda
WTW

Kirsten Beasley was appointed to lead the Bermuda office for WTW in August 2021. She was previously WTW's head of healthcare broking, North America. Before that, she spent 14 years at Allied World Assurance Company, culminating in her appointment as chief operations officer.



Kirsten is also the deputy chair of WeSpeak, and a board member of the Association of Bermuda International Companies, BermudaFirst, Bermuda's Chamber of Commerce and the Bermuda Health Council.



Property

By Chris Rafferty, WTW

Over the last 20 years, the Bermuda property market has evolved dramatically into a mature and sophisticated market that boasts 13 property carriers and more than US\$1.5 billion of capacity. Today, it writes a broad range of occupancies around the globe, with a strong North American focus.

The Bermuda market provides innovative solutions for the ever-growing range of risks encountered by businesses. Whether for product innovation or capacity-based solutions, the Bermuda market delivers results that reflect its technical knowledge and deep understanding of the risks and exposures facing clients.

Bermuda is committed to maintaining its relevance for clients, both from a product and capacity offering, as well as talent development. With the Island's proximity to North America, enabling clients to meet with key decision makers,

Capacity, rates and pricing

Bermuda carriers have weathered the storms of the last two decades, demonstrating their commitment to the class, and firmly establishing themselves as a cornerstone market for North American Natural Catastrophe exposed business.

The importance and relevance of the Bermuda market has been further endorsed by several boutique brokers establishing or expanding their on-island presence.

New carrier entrants have added much sought-after Cat capacity into the mix. Moving into 2022, we do not foresee any meaningful capacity adjustments or movement away from current strategies, core to which is profitability. This will result in continued underwriting discipline and continued rate increases on poorer performing risks/ classes, albeit at decelerated levels.

The past five plus years have seen a significant expansion in capacity. For example, one carrier has more than doubled its capacity from US\$250 million to US\$650 million, with another doing similar (from US\$300 million to US\$500 million). This has reaffirmed Bermuda's credentials in providing huge excess of loss capacity.

Underwriters are focused on achieving and maintaining a profitable portfolio through careful risk selection and establishing long term, multi-line relationships.

The arrival of the first multi-line independent managing general agent (MGA) in Bermuda, adds a 100% proprietary layer solution for mid-market business.

Hot topics

While COVID-19 and communicable disease coverage has understandably dominated the headlines, property underwriting teams are also wrestling with issues that include:

- How to appropriately quantify and price for unmodeled perils, such as: wild fire, tornado and flood
- Greater frequency and severity of both risk-based and natural catastrophe losses
- Interdependency and supply chain
- Inflation and valuations
- Risk quality
- Treaty renewals





Casualty

By Chris Heinicke, WTW

Since its formation in 1986, the Bermuda excess casualty market has developed into a dynamic, diverse and accessible hub, able to address the insurance needs of the world's most complex companies.

There are now 17 Bermuda markets, offering approximately US\$600 million in combined limits. The markets have expanded from offering traditional integrated occurrence policies to being able to competitively offer occurrence and claims made, putting them on par with markets in the US and London.

Another key change can be seen in attachment point, which has dropped from US\$ 100 million in 1986 to as low as US\$ 5 million in 2021. What was once a high-limit, high-attachment marketplace is now ready to attach much lower down, meaning Bermuda markets can serve the needs of a very broad range of clients.



New entrants

The last 18 months has seen the arrival of four new markets.

Each market is staffed with experienced underwriters with a long history in the Bermuda market.



Capacity, rates and pricing

Partially in response to large losses over the years, Bermuda markets have switched strategy and today offer smaller limits in a much more impactful way and participate on a much broader range of programs. Markets that once offered upwards of US\$250 million in limits are now offering just US\$25 million or US\$50 million. This means that, while the number of markets has grown, overall capacity has fallen.

This reduction in capacity, mixed with the severity and drastic uptick in frequency of claims saw Bermuda markets, like those elsewhere, go through a rapid hardening in 2019 that was further compounded by COVID-19 in 2020. Rates were suddenly increasing dramatically, some as high as 200% in the most hazardous of business classes, and clients were left wondering where the increases would stop.

Thankfully, we are now starting to see underwriters taking a more measured approach. They understand that clients have a premium threshold beyond which they look to market individual layers or stop buying altogether. Since the markets need those premiums to remain in business, the market as a whole has calmed. While we probably won't be seeing large reductions for some time, we are definitely starting to see a flattening of rates.

Bermuda markets generally do not lead programs because they are not equipped to handle the larger volumes of claims activity expected in lead positions. However, they are competitive on the first excess layer, especially with the new markets looking to build their book of business.

COVID-19

The loss impact to liability insurers from COVID-19 has so far been relatively minimal. While the pandemic saw markets add communicable disease exclusions in 2020 and 2021, the fear of a market-crushing event has passed, and markets are now willing to discuss renewals without exclusions. As working from home becomes more normal, the noise has quietened, and underwriters are once again willing to listen to client results and negotiate on premiums and coverages.

Bermuda carriers continue to provide insurance for the vaccines that are keeping the world as safe as possible during the COVID-19 pandemic.

Hot topics

As the world changes, the Bermuda market continues to adapt to deliver solutions to today's exposures.

Mass shooting events

Although the frequency of mass shooting events has tragically increased, with several incidents over the last 4 years, the markets are continuing to offer cover.

Climate change

Where climate change-related lawsuits have been filed against companies, those companies have filed claims with their insurers. However, markets and clients are continuing to get to grips with the insurability of climate change, so whether there is coverage within the liability policies remains still to be determined.

Wildfire capacity

Wildfire capacity is still being offered in Bermuda, even for California exposures, with higher limits available than any other marketplace.

Our experience

With our senior brokers having over 20 years' experience, the WTW Bermuda casualty team has witnessed the evolution of the market firsthand.

We work closely with our colleagues in the US and London, navigating the global marketplace to deliver the best possible results for our clients.





Healthcare

By Holly Diatelevi , WTW

The Bermuda healthcare market is an established specialist market for US domiciled health businesses. The market has a broad appetite, writing all segments of complex healthcare, from hospitals and facilities to senior care.

The Bermuda health market is generally a lead-excess market, however, there is also some appetite for primary coverage. On the payer side, the market also writes business for managed care companies.

Units provide distinct expertise and robust claims teams, with many further specializing in a particular area, such as professional liability or general liability.

Bermuda Healthcare Forum 2022

In April 2022, Bermuda will welcome sophisticated insurance buyers to this dynamic and thought-provoking educational event.

The forum will offer well-balanced content covering risk financing, complex claims and emerging trends across various coverage lines.



Capacity, rates and pricing

Recent years have seen some withdrawal of capacity, with carriers reducing the amount they are prepared to offer. For example, a market that would previously have been prepared to deploy US\$25 million, would now commonly be ready to deploy US\$10 million to US\$15 million.

The healthcare professional liability market has reduced in overall capacity from approximately US\$300 million to approximately US\$200 million, while the senior care market has reduced from approximately US\$200 million to less than US\$100 million. These reductions are being driven by underwriting discipline in response to a multitude of events impacting the healthcare sector.

The capacity withdrawal has been particularly noticeable in relation to the Bermuda integrated occurrence form 004 for bodily injury. This form provides broad catastrophe coverage and batching mechanisms, and is especially useful for clients that require large insurance towers. In the face of 'nuclear' verdicts and the social justice agenda, carriers have become more cautious about deploying capacity on such broad terms.

The shift in capacity requires new solutions to achieve the coverage that is necessary for some clients. Often, we are intersecting with the entire Bermuda marketplace or ventilating coverage across layers to ensure the necessary protection is provided.

Since modest limits of US\$5 million are viable, rather than historical norms of US\$25 million, the market offers favorable opportunities for new players to enter.

The Bermuda healthcare market had been experiencing double-digit rate increases in recent years, ranging anywhere from 15% to 100%.

In the last 12 months, this level of rate alteration has eased, with the average rate of increase reducing to 10-15%. Loss-impacted accounts or those in specific jurisdictions, such as large urban areas, can still face higher increases.



New entrants

The Bermuda healthcare market has benefited from some US market withdrawals, with clients that previously used US-based carriers now looking to the island to fill capacity gaps.

Two new carriers have entered the Bermuda healthcare market within the past 12-15 months.



Hot topics

The climate of social justice and a number of high-profile claims have seen carriers respond in various ways with respect to cover for sexual abuse and molestation. We have observed outright exclusions, per-claimant retentions, and the use of exclusions with coverage carve-backs.

Historically, coverage for bodily injury or mental anguish may have been offered and criminal acts exclusions didn't always negate this coverage. Insurers are now placing greater emphasis on reasonability in relation to criminal acts, ensuring they're not liable to defend parties where there is no chance of successful defence. Additionally, markets often exclude mental anguish claims.



The Bermuda healthcare market provides cover for bodily injury and property damage that occurs as the result of a cyber-attack. Cover that addresses the cyber breach itself is typically provided through a specialist cyber product.

Insurers have been evaluating root causes of the US opioid crisis. This is evidenced by the evolution of policy wording that excludes coverage where there are clear cases of overprescribing. However, carve-back cover remains in place for true prescribing mistakes, such as when a pharmacist mis-fills a prescription.

Underwriters are assessing the implications of digital health. Considerations include how it may shift liability pathways, how it affects the duty of care, and how it expands standards of care.

The ongoing pandemic and focus on social justice are bringing health inequities to the forefront. Going forward, healthcare providers will need to consider how such disparities and potential biases impact the delivery of care and consequently health outcomes for certain groups.



COVID-19

In terms of hospitals and facilities, most Bermuda carriers provide cover for COVID-19. However, batch exclusions are present, which state that COVID-19 cannot be the sole reason for a batch claim; there must be some other common denominator causing related incidents.

In the senior care space, such as senior care homes and residential senior living communities, communicable disease or pandemic exclusions remain the norm.



Success story

When a large medical system experienced significant disruption in their excess liability tower due to US market exists, reductions in capacity and mandatory coverage terms, Bermuda's expertise, flexibility and receptiveness quickly became apparent.

The Bermuda markets were keen to engage, investing time to fully understand the client's requirements, offer solutions, and commit to supporting sustainable, collaborative relationships. We were able to secure 100% of the required capacity and coverage terms that met the client's needs, while developing long-lasting partnerships.



Financial, Executive and Professional Risks (FINEX)

By Trevor Ferguson, WTW

Bermuda has a mature financial, executive and professional market that has been around since the 1980s. Today, there are around a dozen carriers, each with deep expertise of the largest and most complex corporate risks, operating in the excess and primary space.

The Bermuda form for employment practice typically offers broader coverage than can be found in some other markets, providing large employers with protection in the event of class actions, such as those related to race or gender discrimination. The form covers punitive damages that can't be covered in the US or London.

The picture is similar for Directors and Officers protection, with significant exposures and their remedies tending to be settled out of court.



Capacity, rates and pricing

Like most global markets, the last two or three years have been marked by a tightening of capacity, while rates have increased by around 10% to 15% year on year.

Because the Bermuda FINEX market is an excess market, participating higher up in programs, it is insulated from some of the instability that can be found in the primary lead markets. No carriers have withdrawn completely and aggregate capacity has remained more or less unchanged.

The more severe tightening in capacity experienced in London has seen a rise in non-US business reaching Bermuda. Historically, this wouldn't have been seen since there was sufficient capacity elsewhere, but the capacity withdrawals experienced by other markets means that business is looking to the island to fill the gaps. Currently, this cycle seems set to continue for another couple of years before we'd expect things to settle down.

The market is characterized by carriers who've been in the market for a decade or longer, meaning they are not going to pull out based on short-term fluctuations. If a market were to pull out, it would take a long time to come back, something they would clearly prefer to avoid. This creates the long-term stability that clients are seeking.

Rate increases in Bermuda have reflected other markets around the world and have been slowing down. There have been more than 10 carriers return to FINEX in the US and UK, which has seen the level of rate increase reduce. Where last year we may have expected increase of 15% to 30%, we might typically expect that to have fallen to around a 10% to 25% increase today.



Coverage

While the hardening market has had little impact on the D&O coverage available, we have seen some examples of carriers becoming less willing to discuss expansion of coverage.

In some cases, carriers have dropped Side C, entity coverage, from policies. This means that, while the policy continues to indemnify individual officers (Side A) and covers the business for indemnity payments to officers (Side B), the business itself is not covered for claims against it (Side C). The people are covered, but not the entity.

The Bermuda market offers the possibility for businesses to use a broad form of coverage for the primary layer, with narrower coverage, such as Side A only, beyond the primary. This provides brokers and clients with the flexibility to build towers that reflect the client's risk focus.

Cyber

The picture is a little different in cyber. Here the markets have been retreating following a series of high-profile, high-value cases, such as one company paying over US\$10 million ransom following a cyber attack that shut down operations in different regions. There are also issues with where coverage might lie. For example, if an asset has to be shut down during a cyber attack and suffers damage, whether that is covered by the property damage protection or the cyber protection.

The markets are responding by scaling back coverage and sub-limiting ransomware policies. This means businesses need to work closely with brokers and underwriters that understand their business to ensure they have the appropriate cover.



New entrants

Three new entrants have joined the market in the past three years, helping to offset any capacity withdrawal from existing carriers.

The newest of these began writing reinsurance at the start of the year and began offering FINEX lines in the middle of the year. As the year unfolds, we will learn more about where their specialism lie.

There is some movement of staff between insurers, but talent is generally very stable, helping to reinforce the deep expertise found in the territory. This is further strengthened by the regulatory framework that requires staff to be based in Bermuda.



Hot topics

D&O IPO market

The D&O Initial Public Offering (IPO) market has seen an upsurge in the last year to 18 months. IPOs in the D&O space are especially complex to write and we have seen a lot of litigation, particularly on excess basis. At the same time, rates have seen big rises, making it easier to place IPO risks because of the accompanying increase in appetite.

Social inflation

Social inflation has started to impact the FINEX market, but not yet in quite the same way as it is already affecting other areas, such as casualty.

Gender discrimination claims are costing more to settle, with claim values creeping up to the US\$1 million mark for single plaintiffs. The incentive to settle claims quickly before or when they first hit the news will serve to fuel these increases.



Captives

By Paul Bailie, WTW

Overview

We can report on some trends that are apparent in the Bermuda captive market, and indeed that apply to captives in other locations also.

Interest in traditional property and casualty captive programs remains high during the continuing hard insurance market, this includes increasing consideration being given to emerging risks and those risks not previously managed through captives. In some areas (e.g. Cyber) traditional markets are struggling to properly quantify their exposures, and so are limiting capacity. In the face of these challenges, a captive may provide an ideal way to retain risk in a disciplined way.

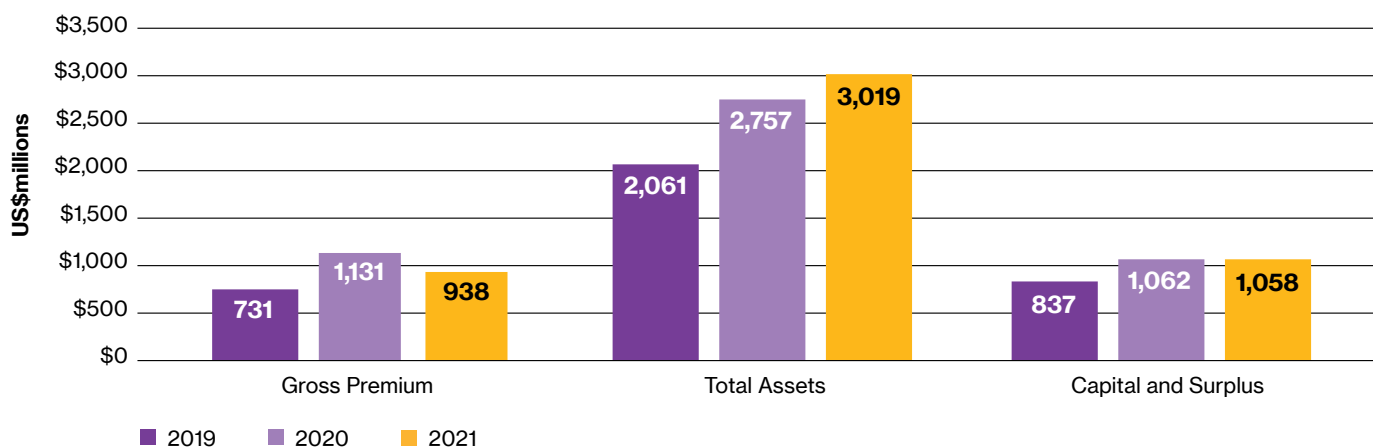
The emergence of greatly enhanced analytical tools in recent years allows captive owners and prospects to make better informed decisions about captive use for individual risks, and to harness the value of risk diversification through a portfolio approach to captive insurance and risk retention. At WTW Bermuda we are seeing this trend develop and are committed to working with our clients to embrace change to create maximum value to captive owners.

Key takeaways

- 2021 was a year of much activity in Bermuda as the hard market continued to dominate
- Some new captives were formed, but interestingly many existing captives are being either reactivated or used more extensively
- Segregated Accounts (cells) managed by WTW have increased by more than 65% in 2021
- Greater deployment of captives into specialty lines such as
 - Cyber
 - Non-damage Business Interruption
 - Credit-related covers
 - Directors & Officers Liability
- Increasing reliance on advanced analytics to assist in captive decision making



Figure 1: **WTW Bermuda Captive Growth**



In terms of a specific line of business that has seen a large spike in interest, Directors & Officers Liability has featured prominently through 2021 and is continuing to do so despite some recent easing in market challenges. We do not have a simple solution in this area, but we are able to talk to our clients about the issues and provide some input on customized solutions in certain instances.

As we at WTW Bermuda communicate more frequently with our clients through 2022 and beyond, we will share more information about captive developments, including case studies. We also welcome enquiries for future specific topics of interest.

Figure 1 above shows an overview of WTW Bermuda's captive activity over the past three years. Capital and Surplus and Total Assets have grown, although premium has been a little more variable, this being somewhat skewed by the impact of individual large captives that may have less consistent premium volumes.

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At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success – and provide perspective that moves you. Learn more at wtwco.com.



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