

# BERMUDA

## BUSINESS REVIEW





# Bermuda innovation and perseverance in ILS

BY JO STANTON

Bermuda's motto *Quo Fata Ferunt* – whither the fates carry us – may at first glance seem to be a passive *modus operandi*.

**H**owever, a deeper analysis reveals a truth about Bermuda and her people that has led to the Island becoming a successful financial centre that services clients domestically and around the world.

Taken from Virgil's *Aeneid*, *quo fata ferunt* is part of a larger passage that translates to: "let us follow where the Fates take us or take us back; Whatever will be, every fortune/misfortune can be overcome through perseverance."

Despite being a small island in the north Atlantic with no natural resources to speak of, perseverance has been the key to Bermuda's success for more than 400 years.

Only by persevering and working together for the greater good have Bermudians managed to carve out niches that

led to the Island being a world-leader in industries such as ship building in the 17th and 18th centuries, supplying fresh fruits and vegetables to the US East Coast in the 19th century and tourism and international business in the 20th and 21st centuries.

As the 'World's Risk Capital', Bermuda has solidified its position as a centre of excellence in respect of bespoke innovative insurance solutions. This is a result of many years of perseverance and understanding the nuances of the risk markets and the needs of clients.

Bermuda has critical mass in respect of sponsors, managers, underwriting and broking experience as well as providing confidence and security to clients and investors utilising Bermuda products.

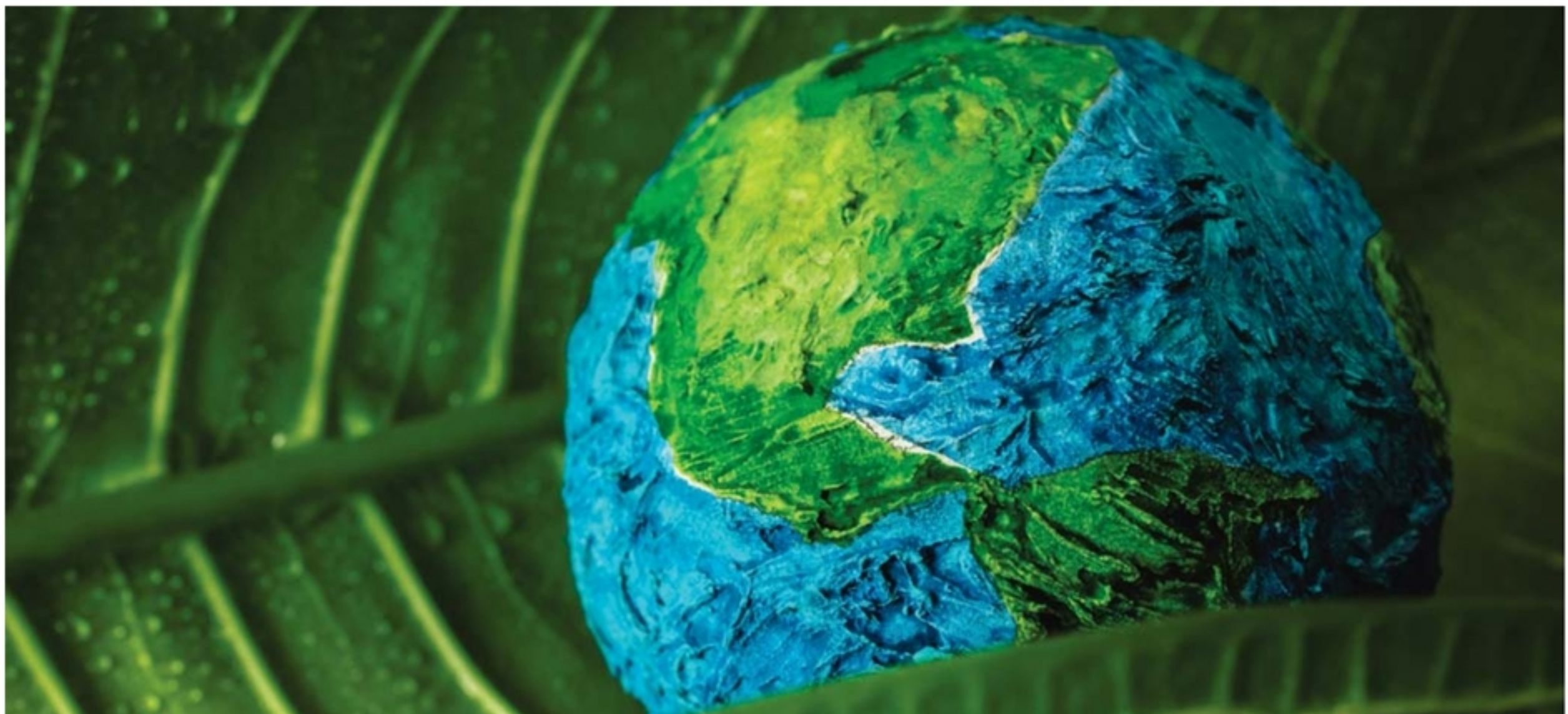


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This is all underpinned by a world class commercial infrastructure which includes a solid legal infrastructure, service providers well versed in the industry and its products, a well-respected regulatory framework and an internationally recognised stock exchange.

The Bermuda Stock Exchange (BSX) is the world's leading exchange for insurance linked securities (ILS). In 2021 listings reached a record of 281, representing an 11.1% increase from 253 listings in 2020. The combined nominal value of 2021 listings totalled \$19.8 billion, a 25.4% increase from the \$15.8 billion total in 2020, with the 757 total ILS at the end of 2021 representing \$50.8 billion in nominal value. This growth looks set to continue for the foreseeable future.

Regulation has constantly been updated and enhanced over the years as the ILS sector has evolved to meet the commercial needs of the market and clients while providing a well-balanced, thoughtful regulatory approach which is proportionate and risk based.

Collaborative work between Bermuda's industry and its regulator, the Bermuda Monetary Authority (BMA), ensures legislation is updated to provide regulatory sophistication, flexibility and speed to market. For example, the BMA recently implemented a faster catastrophe bond issuance vehicle registration process with approval in three days, compared to a minimum of two weeks and up to two months in other jurisdictions.

Bermuda's location is also an advantage. The Island is nestled in the north Atlantic, between two of the largest insurance and deepest capital markets in the world and has easy access to both. Industry related events hosted in Bermuda, while recently impacted by COVID-19 restrictions, attract global participation, illustrating the substance of Bermuda and the importance of being a respected and dependable partner to the global insurance market.

As evidence of Bermuda's standing in the market and the value it provides, Bermuda supported a new wave of capital estimated at approximately \$15 billion in 2020, boosted by a hard market in insurance and reinsurance. Capital flowed to existing and new companies along with various ILS structures. As the market evolves and conditions change, Bermuda's understanding and ability to respond fortify its position as the World's Risk Capital.

Bermuda is positioning itself to become a global leader in climate risk finance solutions and addressing the estimated \$1.2 trillion global protection gap – those corporate entities, municipalities, countries and individuals that are uninsured or under-insured. With the Island's long history of providing catastrophic peril coverage through innovations such as ILS, Bermuda is set to continue to play a critical role in this area.

Investors are becoming increasingly focused on directing capital to environmental, social and governance (ESG) compliant entities and are asking insurers, asset managers and service providers about their ESG principles. ILS structures

can certainly fulfil ESG considerations – something that has been recognised by investors such as pension funds around the world.

Goal 11 of the United Nations Sustainable Development Goals (SDG No. 11) is to 'Make cities and human settlements inclusive, safe, resilient and sustainable'. One of the specifics of SDG No. 11 is to 'substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters and develop and implement holistic disaster risk management at all levels.'

ILS can clearly help reach this goal as demonstrated by two recent examples. The Generali Lion III €200 million cat bond, which covers exposure to windstorms in Europe and earthquakes in Italy, was the first ever ILS issuance that embeds innovative green features in compliance with the Generali Green ILS Framework. The Danish Red Cross Cat Bond covering volcano risk, labelled a sustainable bond, was also innovative with use of blockchain technology.

While the world continues to grapple with the ongoing pandemic and increasing geopolitical conflict, Bermuda will continue to do what has served the Island for the past 400 years – innovate and persevere.

## JO STANTON



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