

Sidecars: Alternative Capital or Reinsurance?

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What are they?

- Special purpose reinsurance vehicles
- Short-lived – 2-3 years
- Capitalised by specialist insurance funds, usually by preference shares, though sometimes in the form of debt instruments
- Reinsure a defined pre-agreed book of business or categories of risk
- Liability limited to assets of SPV
- Unrated

Why are they used?

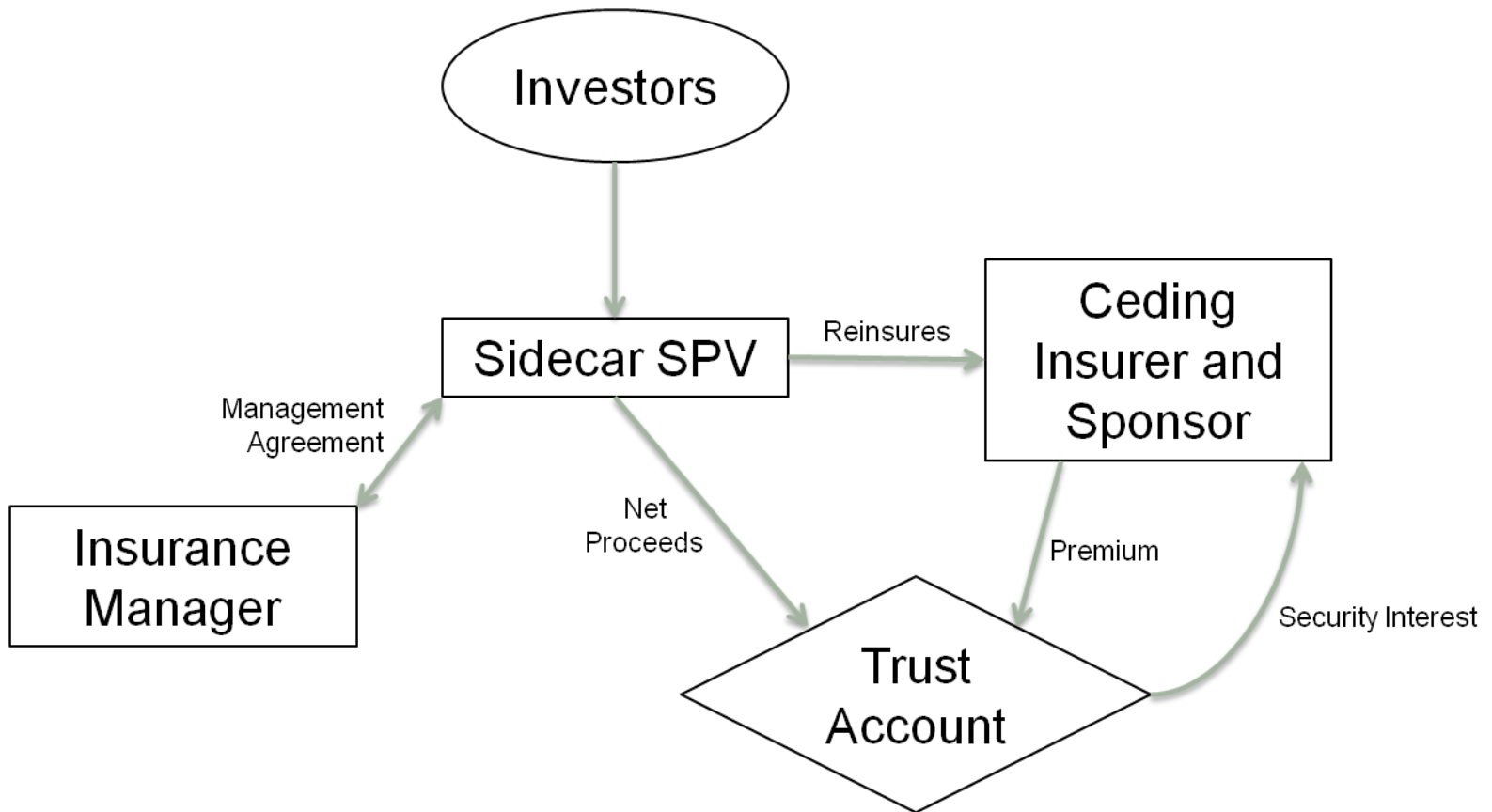
For insurers:

- Can provide insurers with protection against peak risks
- Capital management – provide additional capacity without need for permanent capital
- Can provide additional source of income by leveraging underwriting expertise (“Market-Facing”)

For investors:

- Provide investors with targeted non-correlated returns relating to specific risks – no legacy issues that could affect an investment in a typical insurer
- Short-tail nature with agreed procedure for exiting
- Take advantage of price hikes

Typical Sidecar Structure



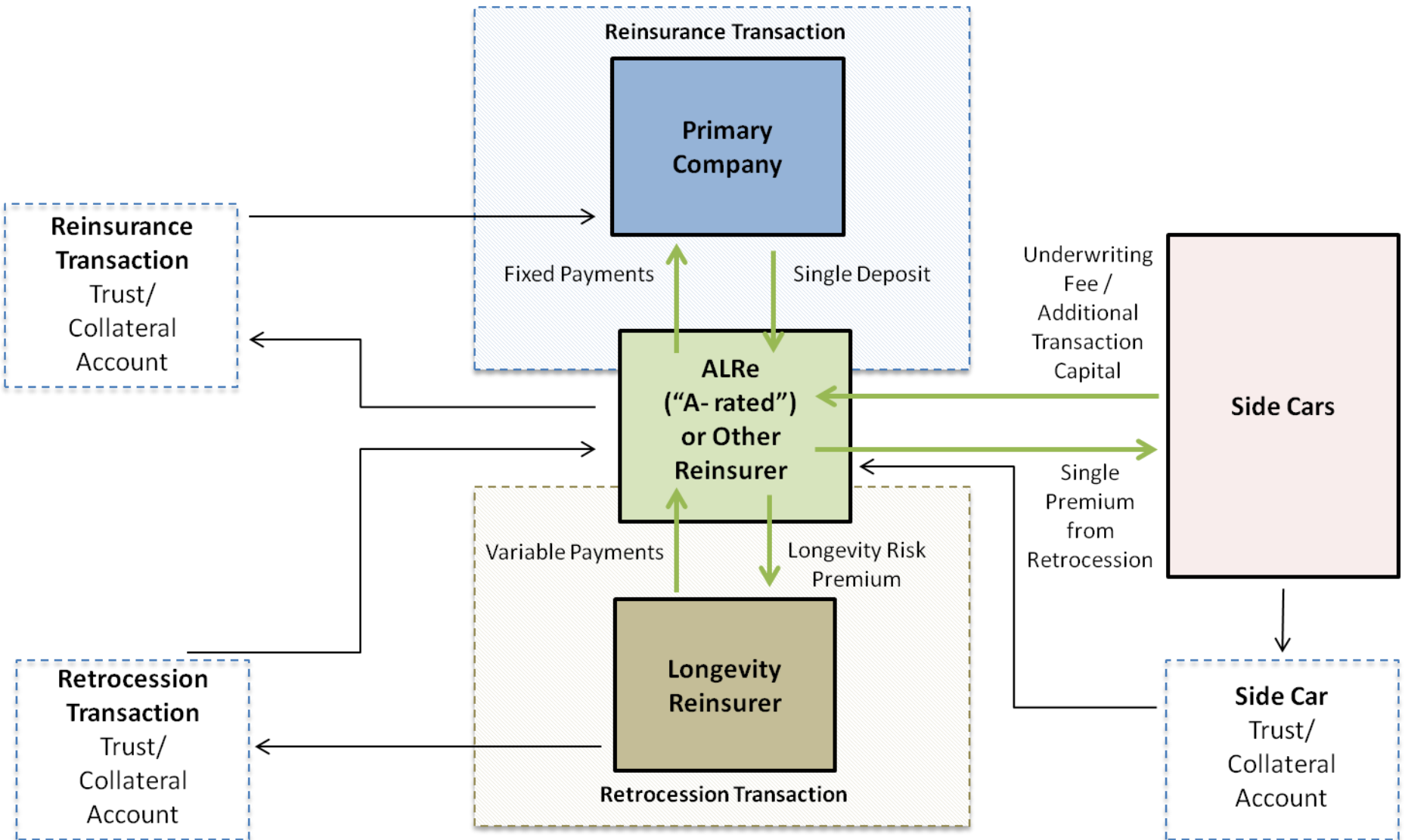
Challenges to Use of Sidecars in Life Sector

- Long term nature vs. investors' shorter term horizon
- Regulatory requirements on cedants impacting ability to generate a return
 - Prudent collateral
 - Underlying assets of SPV must generate matching cash flows
 - Must be true "risk-transfer"
 - Financially strong custodian / trustee
- Not easy for investor to exit, lack of liquidity
- Risk to cedants of losing capital relief if regulatory requirements not met or they change

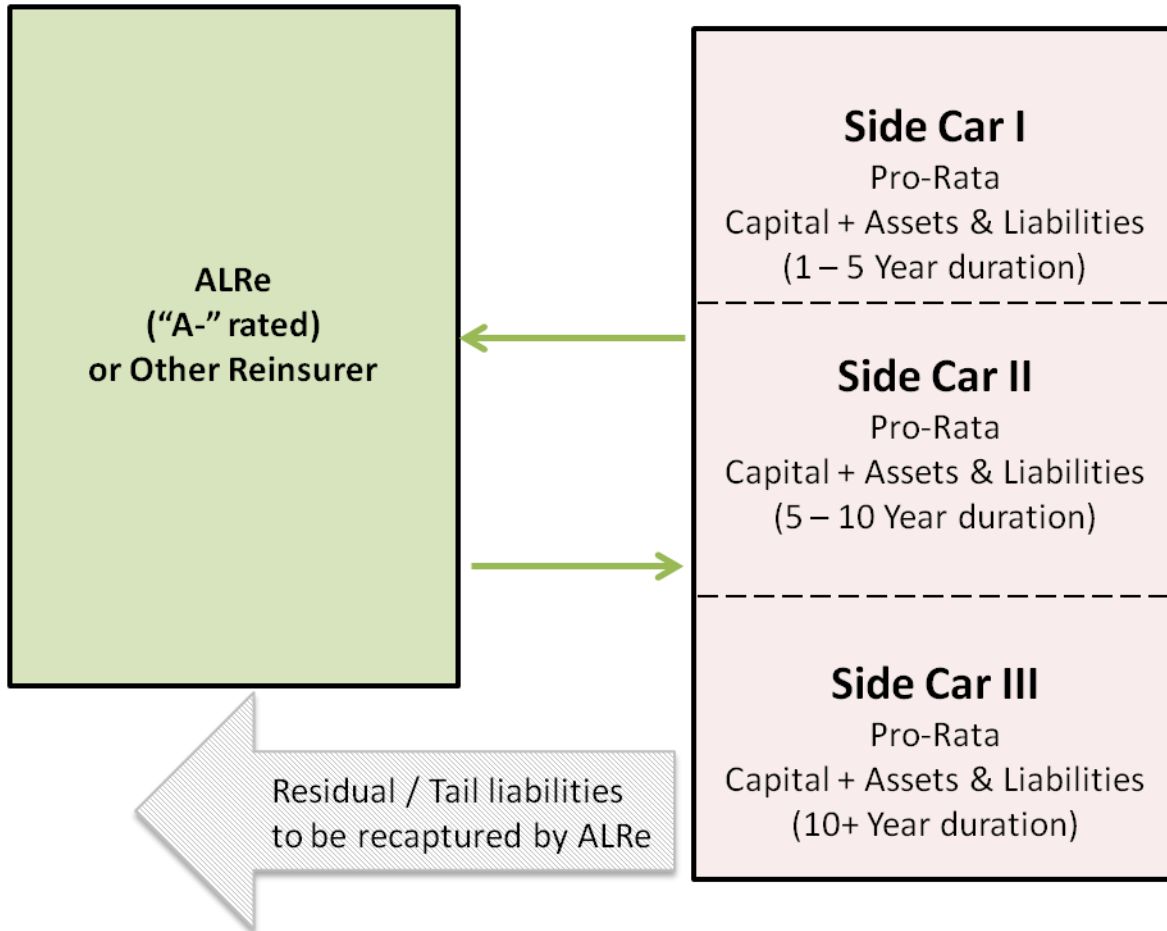
Why Bermuda Side Cars?

- Bermuda offers a sophisticated, robust and globally respected regulatory environment in which to do business.
 - The Bermuda Monetary Authority ("BMA"), established in 1969, supervises, regulates and inspects the financial institutions in Bermuda
- Bermuda companies are not subject to corporation tax; Side Cars can offer economic advantages being incorporated in Bermuda.
 - Bermuda's tax regime is largely based on consumption and payroll tax.
- Bermuda is one of the world's largest reinsurance markets.
 - In 2015 the BMA reported that Bermuda reinsurance companies' collective total assets amounted to more than \$583 billion with capital and surplus of \$214 billion.¹
 - Bermuda's Long Term reinsurance total assets are approximately \$149 billion with capital and surplus of approximately \$35 billion.²
 - The use of Side Cars is already well established in Bermuda.
- In 2016, Bermuda (along with Japan and Switzerland) obtained **Solvency II equivalency for commercial insurers**, placing the jurisdiction's commercial insurers on a level playing field when competing for, and writing, business in the European Union and the UK.
- The United States National Association of Insurance Commissioners ("NAIC") has approved Bermuda as a Qualified Jurisdiction for reinsurance purposes.

Long-Term Business Side Car – Transaction Structure

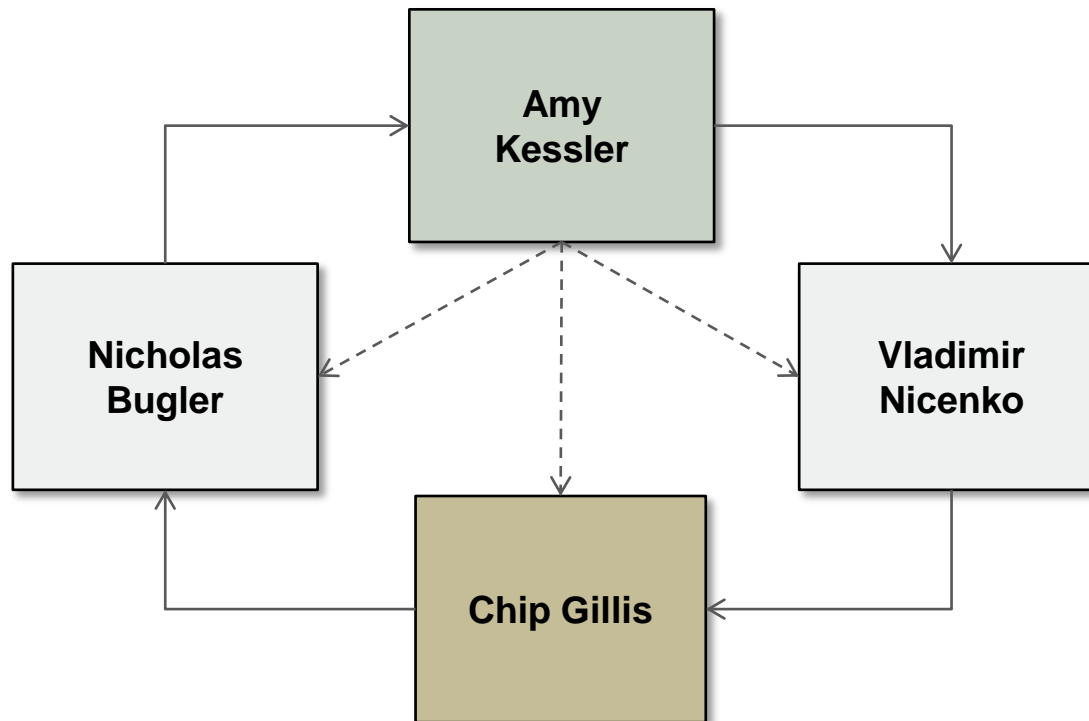


Long-Term Business Side Car – Transaction Structure (Detail)



- Each of the Side Cars are tailored to their slice of the cash flow risks:
- Appropriate asset guidelines, duration and asset quality
- Appropriate capital
- Pro-rata payment of benefits

Panel Discussion



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