

# Staying true to form

**Bermuda has always been at the forefront of innovation in the insurance industry, Stephanie Sanderson of Beesmont explains how the Island is continuing that tradition with its latest developments in insurtech**

Bermuda's insurance history is an extremely rich one. The captive insurance sector, which was once thought radical, was developed in Bermuda in the 1960s and 1970s and established Bermuda's burgeoning international insurance industry. The 1980s saw Bermuda develop excess liability insurance and the 1990s saw increasing catastrophe reinsurance being established. More recently we have seen the insurance-linked securities (ILS) sector develop and prosper in the jurisdiction, making Bermuda a global leader in the market. Today, Bermuda has both the largest ILS and captive sectors in the world and has one of the world's largest reinsurance sectors.

Behind the history of Bermuda's insurance industry are innovation—a willingness to lead and develop new products—and a sophisticated and well-respected regulatory framework. Bermuda's latest innovative move is its development of an insurtech regulatory regime.

The use of technology to create greater efficiency in the current insurance industry models is being monitored by insurance leaders the world over. Just as the fintech industry is shaking up the traditional banking and financial services industry, insurtech is challenging incumbents in the insurance industry. Innovation by its very nature flies in the face of convention and demands forward thinking, and we see insurtech develop more rapidly than before. According to online statistics, market research and business intelligence portal, Statista, the value of capital invested in insurtech companies has been substantially rising for the past five years.

The Bermuda Monetary Authority (BMA) recently stated that it recognises the growing importance of disruptive innovation in

the insurance and wider financial industry, and the critical role that innovation plays in promoting efficiency and enhancing competitiveness in the market. In recognition of this, the BMA announced that it would be launching two parallel innovation tracks: an insurance regulatory sandbox and an innovation hub, both targeted at insurtech.

## **Insurance sandbox**

The insurance regulatory sandbox is aimed at companies that are looking to be subsequently licensed as insurance entities under Section 4 (Regular Insurers) or Section 10 (Insurance Intermediaries) of the Insurance Act of 1978. The sandbox will allow companies to test new technologies and offer innovative products, services, and delivery mechanisms to a limited number of policyholders or other clients in a controlled environment and for a limited period.

A company interested in taking advantage of the sandbox will need to apply to the BMA. Start-ups are ideal candidates, although existing insurance companies can also apply. Examples of the types of insurtech solutions that the sandbox can benefit include providing parametric insurance coverage to clients using a smart contract platform or another form of self-executing technology, making use of blockchain solutions to provide insurance products, or development of smart contract platforms to manage multiple policies.

To qualify for the sandbox, the proposed product, service, or business model should be new or use existing technology differently. Further, the company should have conducted research and due diligence on the proposed product or service, understand

the applicable regulations and have the appropriate risk mitigation plans in place. A business plan will need to be provided to the BMA.

Once the BMA has assessed a company's proposal, it will determine the legislative and regulatory requirements that would be modified for the duration of the sandbox testing period. It is important to note that the sandbox will have appropriate safeguards to protect the policyholders and counterparties of companies that participate in sandbox testing. Once approved by the BMA, a company will be assigned a temporary sandbox license in accordance with its business model and a list of companies approved to operate in the sandbox will be published on the BMA's website for transparency.

The proof-of-concept phase typically lasts between six and 12 months and the company must carry out proof-of-concept based on agreed-upon parameters and conditions that were set during the BMA's review stage. Once the proof-of-concept phase has been completed, a final report must be submitted to the BMA outlining the outcome of the testing.

Upon the successful end of the sandbox testing period the company will exit the sandbox, be re-licensed to an existing class—Class 1, 2, 3, 3A, 3B or 4 if a general business insurer, Class A, B, C, D or E if a long-term insurer, special purpose insurer, insurance manager, broker, agent, or salesman—and be fully subject to the applicable legal and regulatory requirements.

The sandbox increases efficiency by reducing the amount of time and expense it takes for innovative products, services, and delivery mechanisms to reach the market as well as eliminating or reducing the cost of regulatory uncertainty for start-ups.

#### The innovation hub

Apart from insurtech companies that would qualify for use of the sandbox, the BMA has also indicated that it is keen to promote broader dialogue on innovative insurance solutions

with all market participants, including those conducting activities that are not directly regulated by the BMA. To that extent, the BMA has proposed the implementation of an 'innovation hub'.

The BMA has created a working group—the BMA insurance innovation working group (IWG)—that acts as a platform for exchanging ideas and information.

The innovation hub can be used by companies that will eventually apply for entry into the sandbox when the concept is sufficiently developed.

For example, a company may engage with the innovation hub where it is still developing its thoughts and ideas and is not yet prepared for proof of concept which is required under the sandbox.

It is expected that the sandbox and innovation hub will in future, be expanded to include fintech start-ups more broadly and, specifically, digital asset business, which is also being developed in Bermuda.

The BMA expects to use experiences through the sandbox and the innovation hub to ensure Bermuda's regulatory regimes continue to be modernised and keep up with the pace of innovative technologies.

Although insurtech is a disruption of the market, it is also a natural progression of the insurance industry in today's digital world. Kathleen Reardon, CEO of Hamilton Re, put it well when she said: "In a decade, our venerable, well-established carriers with legacy systems and cultures—if they manage to survive—will be anachronistic."

Bermuda is yet again demonstrating it is a world leader in innovative insurance products and services with the implementation of its insurtech framework. [CIT](#)

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Stephanie Sanderson, partner, Beesmont Law

