

Bermuda Insurtech & Fintech 2022

INSURTECH IN BERMUDA

Bermuda has established itself as a leading market for insurtech, representing a convergence of the well-established reinsurance market with the burgeoning fintech market.

A number of Bermuda reinsurance companies already partner with, invest in, or are operating insurtech operations that provide disruptive innovations to the traditional reinsurance market cycle. As a result, risk is now better identified and measured in the Bermuda market and pricing is more efficiently calculated, resulting in greater client choice.

In line with Bermuda's history of innovation, the Bermuda government and the Bermuda Monetary Authority ("BMA") aim to make Bermuda the Silicon Valley of the mid-Atlantic. The BMA has introduced legislation to encourage the formation and licensing of insurtech operations, allowing insurtechs to take advantage of the same regulatory environment enjoyed by traditional reinsurers. There are two licensing tracks provided by Bermuda's Insurance Act 1978 (as amended); the Sandbox Innovative Insurer License; and the Innovation Hub, as shown below:

Innovative insurers (and innovative brokers, agents and marketplaces are also included in the Insurance Act licensing system) are those conducting business in an "innovative and experimental manner". Applicants for a Sandbox License are assisted by the BMA, in a collaborative way, to launch a new insurtech business under a defined license with proportionate regulatory capital and other licensing requirements allowing global business reach and growth towards a full Innovative License within an agreed Sandbox period of usually of 6-12 months.

Alternatively, innovative insurers, intermediaries and marketplaces can apply to join the BMA's Innovation Hub in which the insurtech has access to regulatory standards and requirements and a ready dialogue with the BMA and other participants in the Innovation Hub.

Access to a Sandbox License and the Innovation Hub is fast, frictionless and cost effective. This will appeal to venture capitalists and insurtechs in pre-seeding and seed funding rounds who cannot afford the delays, uncertainty and potentially high costs of the onshore licensing environments of the UK and the USA.

Examples of insurtechs in Bermuda, some of which Walkers has advised on, include a cryptocurrency custodian captive, two blockchain-powered marketplaces for the placement and claims payment of reinsurance risk, a cyber insurer, an AI-powered California wildfire risk Managing General Agent and a hybrid digital assets and smart contracts business that has launched an insurance-linked securities platform.

The insurtech market is still in its infancy, but with established regulatory standards in combination with the sophistication and business development efforts of innovative insurers, intermediaries and marketplaces leading the creative disruption of reinsurance, the outlook is bright for this developing sector.

FINTECH AND DIGITAL ASSETS

Bermuda has continued to lead the way in the fintech and the digital assets sector, having first announced its Fintech Strategy in 2017. Bermuda was among the first jurisdictions to enact a fit-for-purpose regulatory and legal framework comprising the Digital Assets Business Act, 2018 ("DABA"), which provides for the regulation and licensing of digital assets business activities carried on in Bermuda, and amendments to Bermuda's Companies Act relating to the approval for public offerings of digital assets from Bermuda.

The Bermuda government and the BMA continue to refine the legal framework with a view to remaining agile in the face of an ever-evolving sector.

Since inception, DABA has been amended several times in response to industry feedback, including to widen the scope of licensable activities to capture digital asset derivatives exchanges and trading platforms.

In December 2020, DABA further was amended to provide an additional tier of license intended to suit start-ups and entrepreneurs looking to carry out beta testing to establish a minimum viable product in a

regulated environment. This license class has lower fees and minimum net asset requirements, meaning that the BMA can provide a licensing framework for all manner of fintech businesses from innovation to global deployment.

The BMA has licensed a wide range of digital assets businesses under DABA, from global cryptocurrency exchanges such as Circle and Bittrex, innovative trading platforms, stable coin issuers and clearing houses, insurance companies and payment service providers. In December 2020, the BMA issued a DABA license to Diamond Standard Ltd. in connection with the issue of cryptographic tokens contained in a diamond commodity, which enables diamonds to be fungible and liquid and capable of being traded and used to asset-back transactions for the first time.

The Bermuda government also revamped its digital assets issuance legislation with the introduction of the Digital Assets Issuance Act 2020 ("DAIA"), which saw responsibility for the authorization of public offers of digital assets shift from the Minister of Finance to the BMA to be overseen by its growing team of fintech experts and advisers. In doing so, the BMA empowered licensed digital assets exchanges in Bermuda to operate as self-regulated organisations with respect to digital assets issuances conducted on their exchanges, removing the requirement to publish and file offering documents with the BMA.

Bermuda continues to innovate in other areas pertinent to the fintech sector and, in particular, has enacted amendments to banking legislation to offer restricted banking licenses to banks wishing to serve digital assets businesses both domestically and internationally without the requirement for a physical presence. We anticipate that this sector will see at least one new Bermuda entrant in the coming year capable of providing cutting edge solutions to banking, payment, settlement and clearing, utilising digital assets and digital technology.

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