



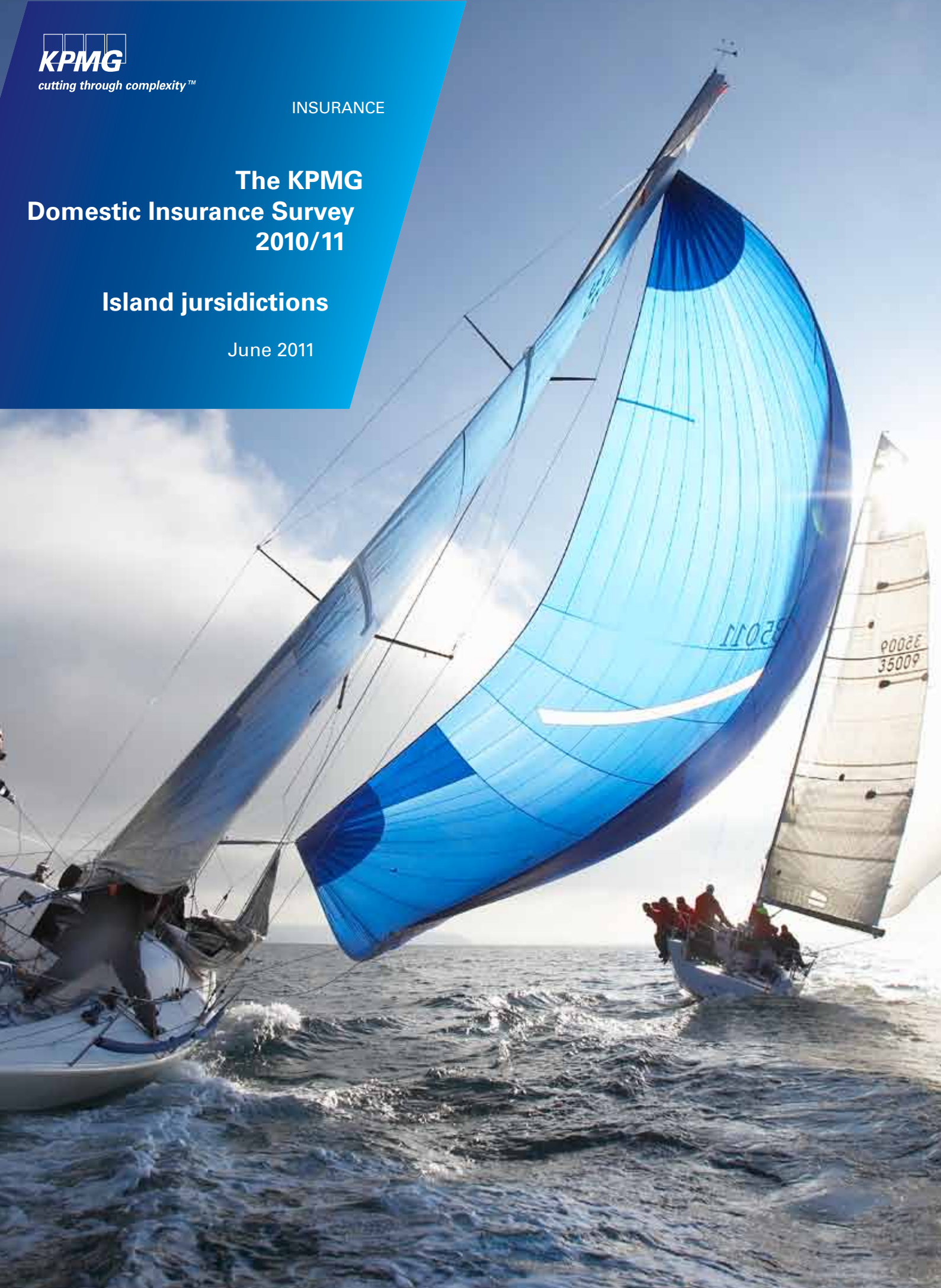
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INSURANCE

# The KPMG Domestic Insurance Survey 2010/11

## Island jurisdictions

June 2011



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## **Appendix: Survey participants**

## Forward

We are delighted to present to you the results of the 2010/11 Domestic Insurance Survey. I would like to thank all participants of the survey for their valuable input.

The survey is a first of its kind for the domestic insurers in island jurisdictions and we hope you find it to be a valuable tool in further developing your business by benefiting from the insights, views and experiences of your peers, both locally and within other comparable markets.

We welcome your feedback on the survey and your local KPMG contacts would be delighted to share the findings with you in person.

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## 1. Introduction and methodology

The insurance sectors in the island jurisdictions surveyed are experiencing a hugely challenging operating environment, with changes in regulation, intense competition, low interest rates and increased risk profile, affecting all aspects of the insurance business.

There has, to date, been no material produced that directly addresses the challenges faced by this important sector of the insurance industry. This survey was devised to provide insight at a particularly difficult time for island economies.

The key objectives of this survey are to expand the domestic insurance community's knowledge of the current operating trends in the domestic insurance market throughout the island jurisdictions, to understand the challenges, targets and current market conditions in which they operate and to identify common themes in insurers' visions for the future.

The jurisdictions that took part in the survey were:

- The Bahamas
- Barbados
- Bermuda
- Guernsey
- Trinidad & Tobago

Further jurisdictions were invited to participate, however, since the survey enabled respondents to remain anonymous we have been unable to identify the location of 7 respondents; referred to herein as "other".

The online survey was coordinated by KPMG Advisory Limited in Bermuda and run by each local KPMG member firm.

The survey focused on 6 main areas; business written and size, industry issues, business focus, mergers and acquisitions, run-off and staffing. There were 38 questions in total; some requiring direct responses and rating of importance and those requiring narrative participants' answers which have produced a wide spectrum of data and provided insightful results.

The domestic insurer population is relatively small and, as a result, in some areas of the survey we are only able to report indicative trends. However, we believe it provides valuable insights to the current position of the market, the industry leaders' views on threats and opportunities, and their visions for the future.

The survey was aimed at senior management in comparable island jurisdictions throughout the Caribbean and Europe. Approximately 70 percent of the respondents were CEO or held other C-level positions.

Of the respondents, approximately 90 percent have worked in the industry for more than 11 years and 67 percent have worked for their employer for over 10 years. We therefore believe that the survey responses represent an authoritative view from each of the companies that participated in the survey.

Figure 1: Participating jurisdictions<sup>1</sup>



Source: KPMG Advisory Limited 2011

<sup>1</sup>Image not to scale



## 2. Business written and size

### 2.1 Business written

Participating companies in all jurisdictions underwrite Property, General Liability, Motor, Marine and Employee Liability. From the results, Bermuda appears to write substantially more Health / Medical and Life than the other jurisdictions surveyed.

Table 1 overleaf details the class of business underwritten in each jurisdiction.

Financial Guarantee insurance was only reported being written by insurance companies in the Bahamas and Trinidad & Tobago.

The participants were also asked about the level of net assets within their businesses. As can be seen from Figure 2, Guernsey and Bermuda have the highest net asset levels with both holding \$30m. The average between all jurisdictions is \$18.4m.

In line with worldwide regulatory developments, Bermuda is adopting a risk based capital approach and is also committed to achieving Solvency II equivalence in the near term, which may indicate strengthened balance sheets ahead of changes in regulatory change. On the other hand, Guernsey has announced that it will not seek Solvency II equivalence.

However, in the long term it is widely considered that the island jurisdictions included within the survey will work towards risk based regulation in line with recognized standards which may create significant challenges for those insurers with weaker capitalization going forward.

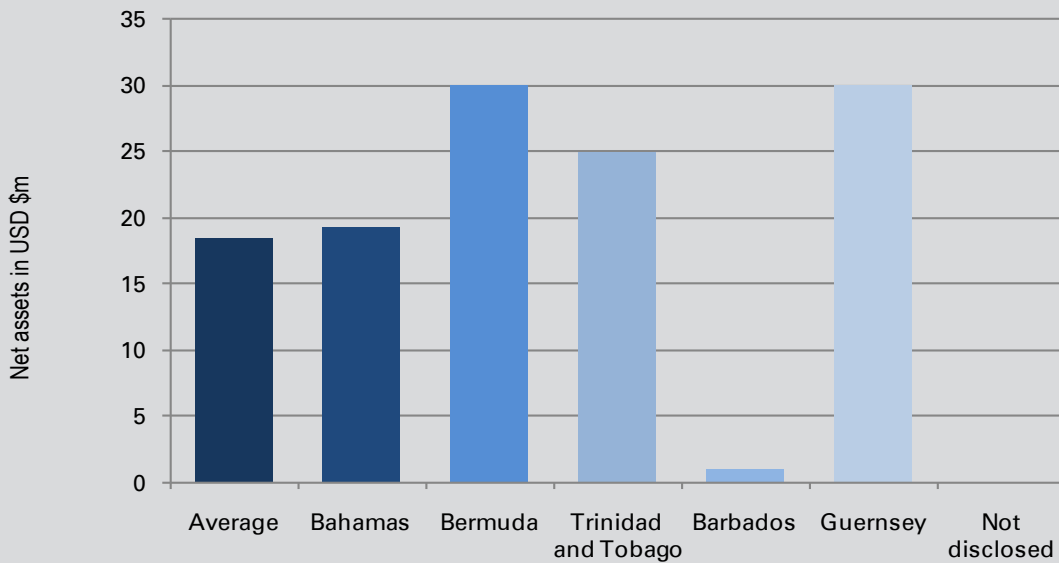
All companies purchase reinsurance with the exception of one Bahamian insurer.

**Table 1: Risks underwritten by organization**

	The Bahamas	Bermuda	Trinidad & Tobago	Barbados	Guernsey	Location not disclosed	Average
Property	100 %	100%	33%	100%	100%	86%	87%
General other liability	100%	100%	33%	100%	100%	86%	87%
Motor	100%	100%	33%	100%	100%	71%	84%
Marine	100%	100%	33%	0%	100%	71%	67%
Employee liability	100%	67%	33%	100%	100%	71%	79%
Directors and officers	83%	33%	0%	0%	0%	57%	29%
Health/medical	33%	100%	67%	0%	0%	29%	38%
Financial guarantee	83%	0%	33%	0%	0%	43%	27%
Life	33%	100%	67%	0%	0%	14%	36%
Aviation	50%	0%	0%	0%	0%	29%	13%
Other	17%	33%	33%	0%	0%	0%	14%

Source: KPMG Domestic Insurance Survey 2011

**Figure 2: Average business net assets in USD \$m**



Source: KPMG Domestic Insurance Survey 2011

### 3. Industry issues

Based on the results of this survey it is clear that the industry is facing a variety of pressures in addition to those presented from operating within the current difficult economic conditions.

Areas of concern highlighted by respondents include:

1. Achieving business growth;
2. Operating expenses;
3. Addressing regulatory change;
4. Solvency II;
5. Transition to IFRS; and
6. Attracting appropriately experienced and qualified staff.

“The market is intensely competitive making it difficult to pursue a growth strategy.”

Source: Survey participant

### 3.1 Growth

Despite the difficult trading environment, almost one third of the respondents noted they exceeded their performance targets. Conversely, around 25 percent acknowledged that they fell below their growth objectives.

In the short to medium term, 95 percent noted that they are currently pursuing a growth strategy, while almost all the participants acknowledged that achieving growth within the business is of fundamental importance.

The survey revealed participants' view's of primary barriers preventing businesses from being competitive as follows:

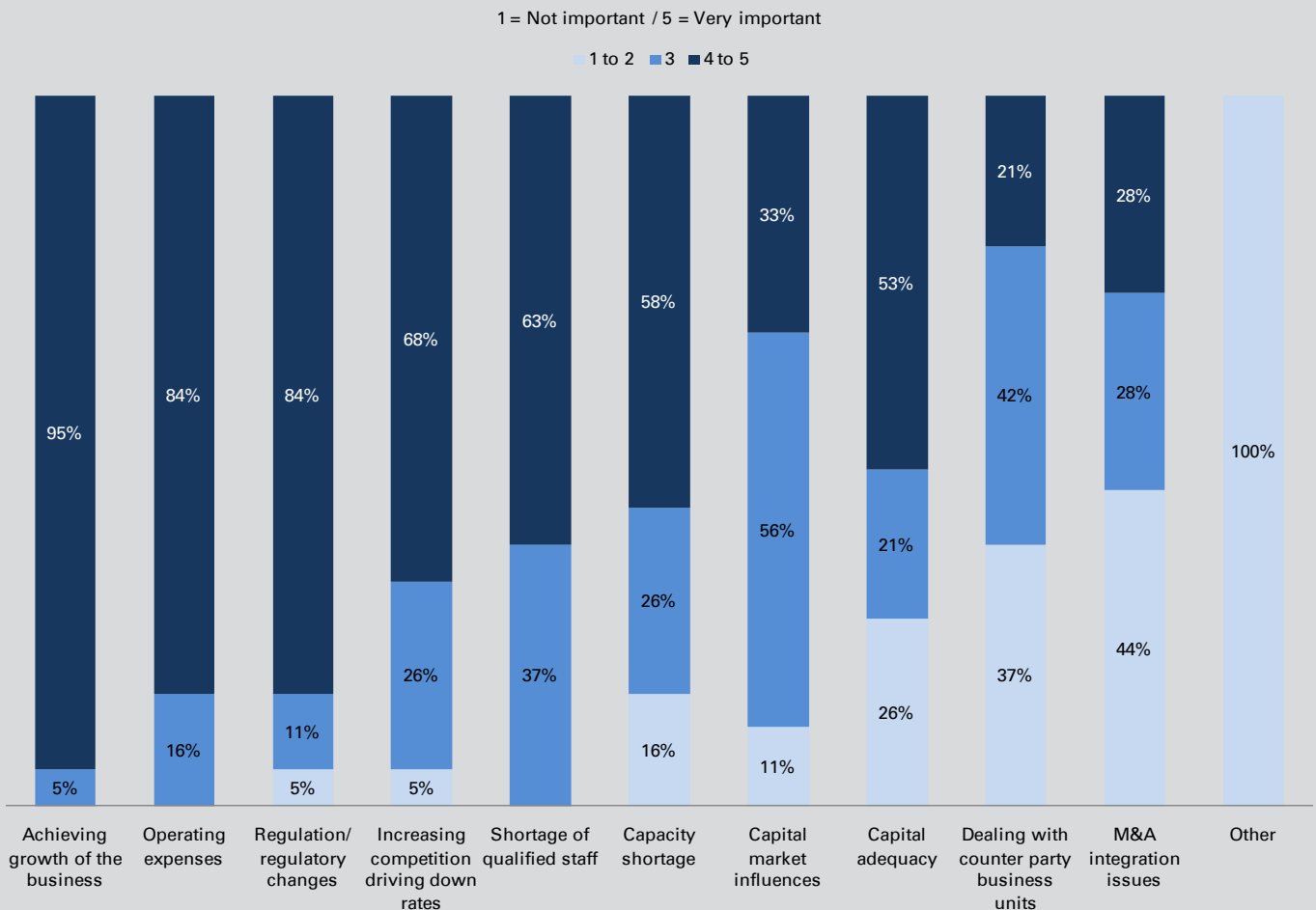
- "Competitive markets."
- "Increasing claims cost."
- "Poor investment markets have been challenging, together with a slow-down in business as a result of the current recession."

It was noted by all respondents from Bermuda, Guernsey and Bahamas that increasing competition within their respective markets was driving down rates, thus making profitable growth much more difficult.

Due to the competitiveness of these markets, the key competition advantages that the participants are relying on to pursue their growth agenda is technical expertise, marketing, claims handling and process efficiencies.

Source: Survey participants

Figure 3: Importance of industry issues in short to medium term



Source: KPMG Domestic Insurance Survey, 2011

### 3.2 Operating expenses

In the short to medium term, operating expenses are perceived as a critical area of focus, with 84 percent of respondents highlighting this area as being highly significant.

As expected, for entities that generally operate in the higher cost jurisdictions, such as Bermuda, a greater weighting is placed on the importance of operating costs. Respondents from the Bahamas, attributed the lowest weighting to operating costs. This indicates that operating expenses create less pressure on the business than the other jurisdictions surveyed.

“The current regulatory environment is administered by amateurs. Most do not have a day working experience in the industry”

Source: Survey participant

### 3.3 Regulatory change

Regulation is a controversial area in most jurisdictions, as illustrated in Table 2 below.

Survey participants ranked the impact of regulation as one of the key issues that their business is facing in the short to medium term. Insurers are aware of this rapidly changing environment and acknowledge that in order to successfully adopt any proposed regulatory changes, they will have to work closely with the regulator.

There is also a general concern from respondents over the cost of implementing procedures to meet new regulations and if they have the resource capacity to ensure a smooth transition.

Selected quotes from the survey responses are as follows:

- “The regulatory environment has been changing rapidly and companies have to be realistic about survival in the new scenario.”
- “New regulations will force change which could be very, very significant, especially for a small company...with limited resources.”
- “Changing regulation makes compliance expensive.”
- “Working with the regulator to review, agree and plan for change is essential.”
- “[The] market is intensely competitive making it difficult to pursue a growth strategy.”

Source: Survey participants

Additional regulatory issues causing concern, aside from the adoption of new standards, include:

1. Anti-money laundering regulations;
2. A requirement to increase company’s share capital in response to regulatory change; and
3. Financial disclosure and cost of IFRS implementation.

**Table 2: Local regulation adequacy**

Regulation in your jurisdiction is currently?	The Bahamas	Bermuda	Trinidad & Tobago	Barbados	Guernsey	Not disclosed
Just right	0%	33%	0%	0%	0%	0%
Adequate	67%	67%	67%	0%	100%	60%
Inadequate	33%	0%	33%	100%	0%	40%

Source: KPMG Domestic Insurance Survey, 2011

### 3.4 Solvency II and equivalence

In view of the impending Solvency II regulations throughout Europe, the equivalence sought by many other jurisdictions, and the general trend for regulators to move towards risk based capital approaches, the survey requested each participant to identify the main challenges that will face their organization. The predominant concerns identified were cost and staffing, mainly due to the financial modeling that will be required and the monitoring and implementation of regulatory requirements.

As highlighted by respondents, Solvency II and equivalence will require far more rigorous financial modeling as a result of its risk based approach. One of the main considerations is whether to utilize the regulators' standard model or whether to invest in developing their own model. While developing a tailored model will incur greater initial outlay, it will most likely represent the capital requirements for the particular aspects of the business and may potentially result in a lower capital requirement than using a standard model.

Despite the challenges to implementation of Solvency II, participants highlighted that Solvency II will benefit their company by allowing a better determination of the financial strength of their company. This will further be strengthened by the pending transition to IFRS.

A further by-product of Solvency II is that insurers will become more sensitive to alternate sources of capital, which may result in increased opportunity for merger and acquisition ("M&A") activity and industry-wide consolidation. This is discussed in more detail later in this report.

A selection of the key quotes provided by participants are as follows:

- "Cost and talent to do modeling."
- "Dealing with the staff changes to monitor and implement the requirements, any statutory deposits that maybe necessary and capital to risk profile changes required."
- "The collation of the relevant data in the format required by the regulator. "
- "We are well capitalized and thus there may be M&A opportunities for others less capitalized."
- "Benefits will include the determination of the financial strength of the Company. Ability to monitor the growth pattern and keep a close look at the loss ratios and profitability."

Source: Survey participants

"Solvency and minimum capital levels are still far too low for insurers."

Source: Survey participant

“Inconsistent and changing standards which don’t seem to make sense. [We’re] told to choose how we treat investments 2 years ago then told this year that it is being put back on the income statement, thereby distorting income.”

Source: Survey participants

### 3.5 Transition to IFRS

While a number of respondents believe that they are well positioned for the adoption of IFRS, a series of concerns were highlighted, stemming from the fact that IFRS may be burdensome and less appropriate for small to medium size insurers.

- “IFRS seems quite appropriate for large publicly traded companies but may be less so for small or medium sized companies.”

Source: Survey participant

The respondents are in agreement however, that adoption of IFRS across the sector will lead to more comparable financial information, which will ultimately allow for a swift assessment of the financial position and performance of the subject company.

#### What opportunities does your organization believe they will gain in the transition to IFRS?

- “Ability to match assets and liabilities to reduce profit and surplus volatility”
- “Financial information will be more compatible across companies”
- “Hopefully it will highlight the gap between entities that are financially strong and those that are weak. We believe that we fall into the former category”
- “Standardization of forms and documents as required by the regulator. Quick assessment of the financial health of the organization and the ability to take corrective action”

Source: Survey participants

### 3.6 Staff

All respondents indicated that their business is impacted by a shortage of qualified staff, with 63 percent rating it as a very important issue for them in the short to medium term.

- “The industry is not attractive to young professionals.”

Source: Survey participant

“Very difficult to plan for more than 12 months. One hurricane can result in huge changes to our business.”

Source: Survey participant

## 4. Business focus

Here participants comment on their competitive advantages, the KPI's they use and various industry aspects which impact their businesses.

### 4.1 Competitive advantages

A number of competitive advantages were highlighted through the survey. Claims handling, marketing and public profile and technical expertise were generally considered a strong competitive advantage by almost all companies (80, 75 and 65 percent respectively). The range of products and underwriting capacity were also seen as a competitive advantage, although to a lesser extent (both 55 percent).

Within the island jurisdictions surveyed, price and level of cover are viewed as having least competitive advantage (35 and 20 percent respectively). This may be due to the mature markets that domestic insurers operate within and the loyalty of their customer base.

### 4.2 KPI's

The survey illustrated that the traditional performance indicators mainly applied by the domestic insurers surveyed are underwriting profitability and gross written premium (90 and 80 percent respectively used these KPI's).

Other performance indicators implemented, although to a lesser extent, include return of capital and return on equity (50 and 40 percent respectively).

The international insurance markets have developed their use of KPI's and most now rely more upon the return on capital and equity rather than the more traditional KPI's such as gross written premium.

This is a natural consequence of these markets having to compete for capital in the international arena. It is likely that domestic insurers in the island economies will similarly face such pressure over the medium to longer term, and therefore develop more sophisticated performance metrics.

### 4.3 Operational considerations

The survey respondents identified expense management and claims “leakage” (overpayment of the true cost of claims) as the key operational considerations facing their business.

Table 3 highlights that staff costs were seen as the most important cost, with business acquisition and infrastructure costs also rated highly amongst participants. Governance and regulatory costs were rated lower than expected, which may be a cause for concern considering the evolving regulatory environment both globally and in the island jurisdictions.

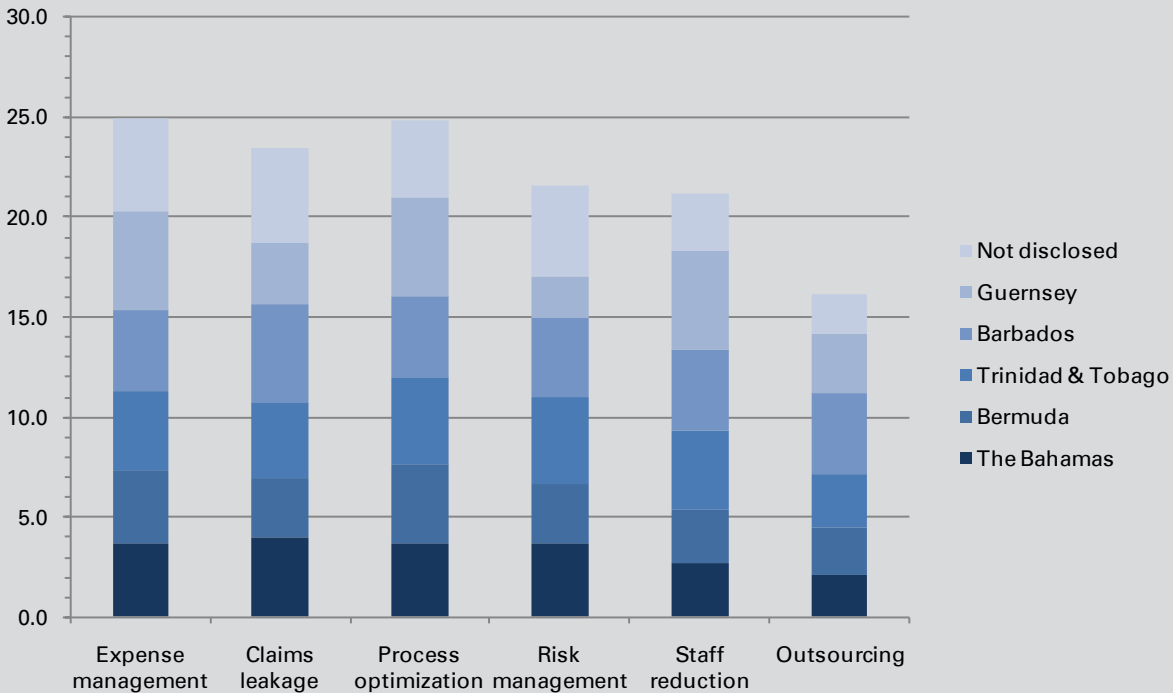
Identified within “Other” was investment costs, which respondents in Trinidad & Tobago specifically rated as highly important.

**Table 3: Operational costs**

Please rate how important the following costs are for the management team on a scale of 1-5 where: 1=not important and 5= very important	1-2	3	4-5
Staff costs	7%	20%	80%
Business acquisition costs	17%	17%	67%
Infrastructure investment	15%	20%	65%
Governance and regulatory costs	10%	35%	55%
Advisory and professional service fees	20%	35%	45%
Other	60%	20%	20%

Source: KPMG Domestic Insurance Survey 2011

**Figure 4: Organizational risk based on aggregated median results (rated 1 to 5) by jurisdiction**



Source: KPMG Domestic Insurance Survey 2011

### 4.4 Business objectives

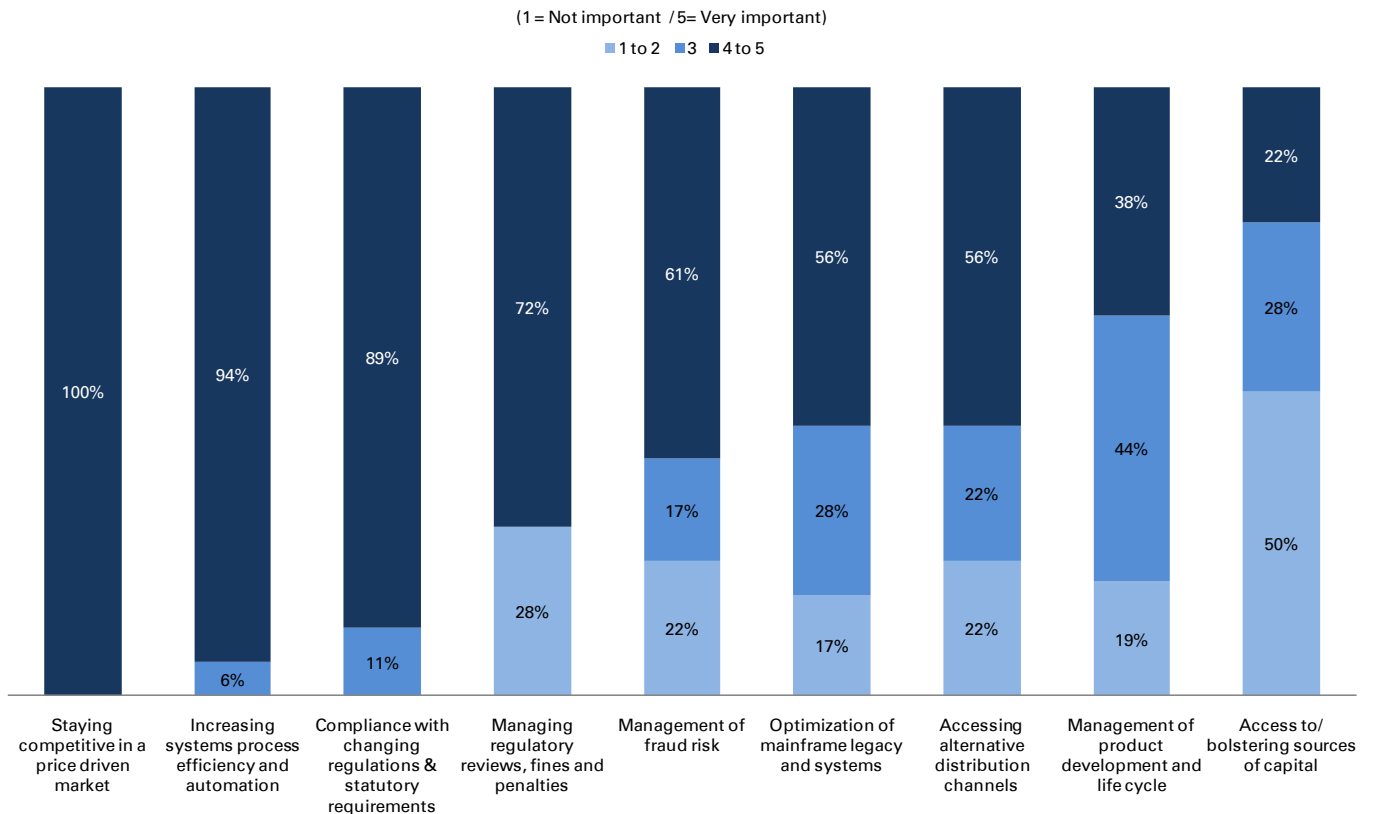
Staying competitive was highlighted by respondents as the most important objective for their businesses. Based on the competitive advantages identified previously, competitiveness is maintained primarily through marketing, maintaining public profile and technical expertise. Increasing systems process efficiency and automation are also identified as priorities to assist in reducing their cost base and claims leakage, which is considered a major concern by the majority of respondents.

Most participants agreed that maintaining compliance within a changing regulatory environment is important, but presents significant challenges for them based on their size and resources. Respondent companies are concerned that they do not have sufficient in house expertise to ensure that this evolution is achieved efficiently. It is therefore expected that an increased reliance on outside assistance will be required.

Enhancing product development and the access to additional capital were of lower importance to participants, which is perhaps un-surprising due to the mature markets which domestic insurers operate within.

Despite the significant changes in the insurance industry caused by unsettled markets and a developing regulatory environment, 60 percent of the participating companies do not change their view of their business objectives over a 3+ year horizon.

Figure 5: Importance of different business objectives



Source: KPMG Domestic Insurance Survey 2011

“[Strong] client relations through service and product flexibility. We believe that the business purpose should always determine our structure. Just as the marketplace continually evolves, so we change our organization to fit our business purpose.”

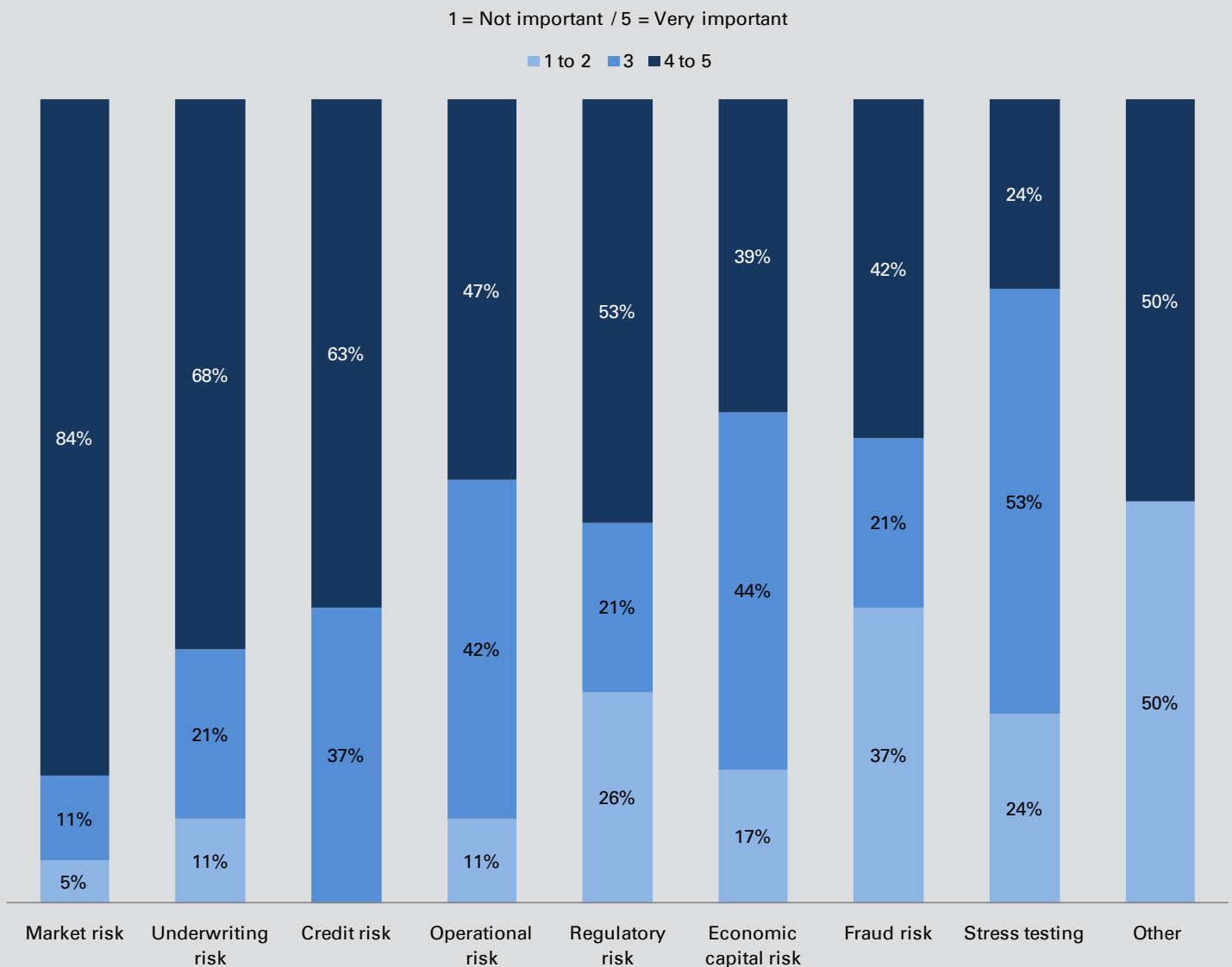
Source: Survey participant

### 4.5 Risk management

Participants were asked about the predominant risks impacting their business and their perspective on the level of influence in developing the business risk management policies. The highest ranked was that of "market risk".

It may be that this question was misinterpreted by participants as being "competitive pressure" as opposed to the systematic failure in capital markets (the intent behind the question). Underwriting risk and credit risk were also seen as predominant risks impacting their business risk management policies. A graph showing the results can be seen in figure 6.

Figure 6: Impact on risk management policy



Source: KPMG Domestic Insurance Survey 2011

## 4.6 Resourcing of business needs

Survey participants were asked whether they insource or outsource various business needs and processes. Table 5 below summarizes the results by jurisdiction. The tasks most often outsourced are actuarial, internal audit and financial modeling work.

The responses indicate that, in general, outsourcing does occur but is focused towards only a few areas of the business. This also reflects managements' views that current outsource costs are relatively low.

**Table 5: Outsource of business needs**

How do you currently resource the following tasks?	The Bahamas		Bermuda		Trinidad & Tobago		Barbados		Guernsey		Not disclosed	
	Insource	Outsource	Insource	Out source	Insource	Out source	Insource	Out source	Insource	Outsource	Insource	Out source
Results shown in %												
Claims	72	28	75	25	100	0	100	0	100	0	100	0
Accounting support	100	0	100	0	100	0	100	0	100	0	80	20
Cash & working capital management	100	0	67	33	100	0	100	0	100	0	100	0
Policy administration	80	20	100	0	100	0	100	0	100	0	100	0
Cost optimization	100	0	100	0	67	33	100	0	100	0	100	0
Run-off management	100	0	50	50	100	0	100	0	100	0	100	0
Investment management	100	0	75	25	100	0	100	0	-	-	100	0
Enterprise risk management	100	0	67	33	67	33	100	0	50	50	80	20
IT	72	28	100	0	67	33	0	100	100	0	80	20
Regulatory assistance & compliance	100	0	100	0	67	33	100	0	50	50	40	60
Marketing	50	50	100	0	67	33	100	0	50	50	60	40
Financial modeling	80	20	0	100	67	33	100	0	50	50	60	40
Internal audit	60	40	67	33	67	33	0	100	50	50	40	60
Actuarial	33	67	75	25	33	67	0	100	0	100	0	100

Source: KPMG Domestic Insurance Survey 2011

## 5. Mergers and acquisitions (“M&A”)

### 5.1 M&A within the domestic insurance market.

The global economic downturn and uncertainty in the soft premium rate environment in recent times has limited the possibility and opportunity for M&A. A key theme emerging from this survey is that the majority of participants are now pursuing a growth strategy, with 68 percent of respondents noting that M&A activity would provide a positive outcome for their organizations’ operations.

Of the respondents who could be identified by jurisdiction, all those from Bermuda, Barbados and Guernsey considered M&A would provide a positive outcome and 67 percent from the Bahamas agreed. Interestingly, Trinidad & Tobago is, with only 33 percent positive responses, the only jurisdiction where the outcome of M&A activity is not as positively regarded as in the other jurisdictions.

In addition to a soft market, most domestic insurers participating in the survey have been unable to achieve their growth targets, and are faced with significantly higher costs in many aspects of their business. This is the reason such a high proportion believe that consolidation within the market (through M&A) would be attractive to the market as a whole.

However, in contrast, some respondents believe that quick and successful action during the economic downturn has provided them with a position of strength versus their competitors in terms of capitalization, with lean and flexible operations. A number of domestic insurers expect that there will be increased opportunities to acquire entities that have been less responsive to the economic downturn and weaker as a result.

“We are well capitalized and thus there may be M&A opportunities [to acquire] others less capitalized.”

Source: Survey participant

“Very little business is coming to the market. The customer is being challenged to meet increased costs.”

Source: Survey participant

## 6. Run-off

### 6.1 Run-off

Approximately 10 percent of respondents reported having discontinued lines of business, and the majority have run-off in respect of the “tail” from previous years.

Run-off activities for domestic insurers are typically performed in house (as supported by 93 percent of survey respondents). Of the regions surveyed, Bermuda was identified as the only jurisdiction that outsources some run-off services.

When performed in house, run-off is typically the responsibility of senior management. 53 percent of respondents noted that run-off activities are performed under the responsibility of either the CEO or CFO. 27 percent of surveyed participants assigned run-off responsibility to a Managing Director.

None of the respondents reported having considered implementing mechanisms to accelerate their run off business.

Management roles typically responsible for run-off:

- 40% CEO;
- 13% CFO; and
- 27% MD.

**Table 6: Management roles**

Which management role has responsibility for the following function?	CEO %	CFO %
Change management	59%	0%
Reinsurance	56%	0%
Risk management	47%	0%
Run-off	40%	13%
Outsourcing	40%	0%
IT	33%	22%
Administration and operations	24%	18%
Claims management	22%	0%
Compliance	17%	28%
Internal audit	17%	22%

Source: KPMG Domestic Insurance Survey 2011

## 7. Staffing

### 7.1 Senior management

The senior management teams of respondents consist of a core team of 4 to 9 personnel, as shown in Table 7 opposite.

Within the structure of participating companies, the CEO is typically responsible for change management, reinsurance, run-off, outsourcing and risk management. Also, compliance and internal audit typically fall under the responsibility of the CEO. However, there was no clearly established trend in allocation of responsibilities for administration and operations and IT between, CEO, CFO or other senior officers.

### 7.2 Staff

Staff numbers were predominantly concentrated in the finance, underwriting and distribution departments of participants.

Of companies surveyed, 53 percent have more than 20 employees assigned to finance / underwriting / distribution, and more than 36 percent have a team of greater than 10 employees that deal with claims.

In all participating jurisdictions, staff turnover is very low. 60 percent of respondents indicated that turnover was less than 5 percent on an annual basis and the remaining 40 percent indicated a staff turnover of between 5 and 10 percent.

It can be seen throughout the survey that having lack of staff with sufficient knowledge is a major issue for domestic insurance companies within all jurisdictions. This appears to be a particular challenge for companies in the medium to long term.

Overall, 63 percent of participating companies rated shortage of qualified staff as being very important.

Trinidad & Tobago and Barbados considered the shortage of qualified staff as a very important issue (with 100 percent of participating companies rating this issue as 'very important').

Staff remuneration, excluding the management team was also covered in the survey. The average salary across all jurisdictions was \$35,000 per annum with Bermuda reporting the highest range of \$50,000 - \$90,000 per annum.

**Table 7: No. of staff employed in senior management team**

How many personnel does your senior management team (Board member or direct report of Board member) consist of?	Average	The Bahamas	Bermuda	Trinidad & Tobago	Barbados	Guernsey	Other
1-3	3	2	0	0	0	0	1
4-6	9	2	1	1	1	0	4
7-9	7	2	2	0	0	1	2
More than 10	2	0	0	2	0	0	0

Source: KPMG Domestic Insurance Survey 2011

**Table 8: No. of staff employed in each function**

Approximately how many staff in your organization are employed in the following functions?	The Bahamas	Bermuda	Trinidad & Tobago	Barbados	Guernsey
Finance / underwriting distribution	23	28	32	15	35
Risk management	15	5	5	5	0
IT	5	15	18	5	5
Claims	10	15	8	5	5
Actuarial / risk modeling / reserving	8	5	5	5	0
Compliance	5	5	5	5	0
Internal audit	5	5	5	5	0
Strategy	5	5	5	5	5

Source: KPMG Domestic Insurance Survey 2011



## 8. Results discussion

The results of the survey illustrate that many parallels exist in the operating environment for domestic insurers across the island jurisdictions surveyed. While this is largely to be expected, the results from the survey also provide valuable insight to key themes impacting these insurers. The survey provides an open platform for domestic insurers to share their experiences and views that will allow their businesses to evolve efficiently and with the benefit of the views, expectations and experiences of their peers.

The critical factors emerging from the results can broadly be split into 3 categories, each of which we discuss further in this section.

1. Process optimization and staffing;
2. Regulatory landscape; and
3. Growth and consolidation.

## 8.1 Process optimization

The survey covered many aspects of the participants' businesses, from the operating expenses most prominent in the minds of management, through to the KPI's used to assess the businesses performance. It was generally considered that increasing systems, process efficiency and automation is very important to management teams to ensure that their businesses remain competitive, to protect and enhance the P&L and to ensure compliance in the ever evolving regulatory environment. A specific area of focus is that of reducing claims leakage which can have a significant impact on the insurers' "bottom line".

Developing internal processes, IT platforms and operational procedures often requires significant capital investment. Based on KPMG's experience in working with insurers, a thorough review of the current operating structure can often identify potential areas in which efficiency improvements can be made, without major capital expenditure. Such reviews have previously identified areas where outsourcing processes to specialist third party administrators may be more efficient than maintaining them in-house with the associated infrastructure costs. This can be especially true where there is a lack of experienced personnel available in the business.

The survey also demonstrated that the participating companies primarily use the more traditional performance indicators such as underwriting profitability, used by 90 percent of respondents, and gross written premium which is used by approximately 80 percent. It is anticipated that domestic insurers will likely face increasing competition for capital over the medium to longer term, which will necessitate the need for the development of more sophisticated performance metrics.

## 8.2 Staffing

Many of the respondents reported that a lack of suitably skilled staff in their jurisdiction is holding back their business. This is not an issue isolated to just one or two island jurisdictions but spans across the whole industry. There has been various papers and articles produced by the international markets on this issue and many of the professional bodies are working hard to improve the attractiveness of the industry and the level of training available. Many international insurance companies run trainee programs, and while their size and resources enable them to take such initiatives forward, the domestic insurance companies may be able to develop their use of "correspondence" courses run by professional bodies such as the Chartered Insurance Institute in the UK (where many of the legal principles are similar to many of the island jurisdictions) or the Chartered Property Casualty Underwriters in the US. KPMG also offers in-house training on industry best practice across a range of disciplines.





### 8.3 Regulatory

Some participants expressed strong views, both positive and negative, regarding the regulatory environment in their jurisdiction, which indicates that there is an inconsistency in the quality of regulatory supervision across the regions. Bermuda recently moved to a risk based capital approach in line with international trends, and it is also pursuing its drive to achieve Solvency II equivalence. It was originally expected that Guernsey would also follow Solvency II, however, in January 2011 the island confirmed that it will not seek to achieve equivalence, but instead opt for the International Association of Insurance Supervisors regulatory standards.

While the regulatory path of many of the island jurisdictions remains unclear, it is largely anticipated that most will follow the global trend towards a risk based capital approach.

The risk based approach has typically created higher capital requirements versus the traditional system. It is expected that this will have a significant impact on the domestic insurance industry, which, as can be seen from the “size and business written” section of this report, is typically thinly capitalized. It would therefore be expected that the insurers may need to raise additional capital, potentially at a greater cost than that currently employed in the business. While such change may be more likely in the medium to longer term for some of the jurisdictions, we have seen a continual evolution in regulatory legislation which impacts domestic insurers.

The survey canvassed the participants’ views regarding the transition to IFRS reporting standards. From the results it is evident there is a mixed reception to the changes, with some insurers viewing the reporting requirements as being appropriate for large companies, but less so for small to medium size enterprises.

Criticism was also made regarding changes to reporting requirements being too frequent making it difficult for management teams to keep up and potentially distorting results. However, many also see benefits in the new standards including the standardization of forms, quick and easy assessment of the financial health of a company and the increased comparability between businesses.

However, it was also apparent that the domestic insurers require the help and support of both the regulator and the accounting firms to ensure that the transition to IFRS is efficient. Since the survey was conducted, KPMG has advised a number of domestic insurers in their transition to IFRS and other areas of regulatory compliance.

## 8.4 Growth and consolidation

In the short to medium term 95 percent of participants are pursuing a growth plan, while 25 percent reported having fallen below their growth objectives in the past year. The domestic insurance markets have typically slow or minimal population growth and hindered economic growth primarily as a result of the global economic downturn. As a result of the drive for growth across the industry, the participants have reported that the increased competition has driven down rates and directly affected their bottom line. That said, if some firms are able to increase their market share, they will likely be placed in an advantageous position when rates harden and the economy revives.

Process optimization can also assist in protecting the future results where rates are being driven down by competition. The survey highlights that some products are more widely distributed in certain jurisdictions, which may provide opportunities for jurisdictions where, for example, life and private medical insurance is not currently so widely offered. We would therefore expect that development and enhancement of products will be an increasingly important objective going forward.

Another positive trend emerging from the survey is in respect of domestic insurers appetite towards M&A. KPMG's transactions and restructuring teams across the region provide advice in this respect assisting clients to realize increased economies of scale, consolidation of operations and cost base, and many other strategic advantages, both when acquiring within a jurisdiction or expanding into new jurisdictions.

As a result of the likely increased capital burden, the cost of administering run-off on the balance sheet will likely rise. The international markets have developed and widely utilized a number of mechanisms to either accelerate the run-off of old years, or to mitigate the cost of servicing run-off business. KPMG has been at the forefront of the development of these solutions and believe that they can also be applied to domestic insurers. We therefore expect to see a growing interest among domestic insurers in this area.

The survey was designed to focus on key market trends and "hot topics" impacting the global financial markets in 2010 /11. We intend to re-run the survey on a biannual basis and will include both a "look back" on the short to medium term views expressed in this survey and to cover the topics and trends affecting the sector in 2012/2013.

## Recent KPMG publications



## Appendix: Survey participants

Table 9: Survey respondents

Jurisdiction	Total no. domestic insurers	Count	Percentage
Antigua and Barbuda	Not provided	-	-
The Bahamas	18	6	33%
Barbados	24	1	4%
Bermuda	5	3	60%
Cayman	18	-	-
Guernsey	1	1	100%
Isle of Man	1	-	-
Malta	7	-	-
Jamaica	11	-	-
Netherlands Antilles	Not provided	-	-
Trinidad and Tobago	26	3	12%
Turks and Caicos	8	-	-
Not disclosed		7	
<b>Total</b>	<b>119</b>	<b>21</b>	<b>18%</b>

Source: KPMG Domestic Insurance Survey 2011

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