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Bermuda Proposes New Parametric Special Purpose Insurance Class

Executive Summary

- **What's new:** The Bermuda Monetary Authority has proposed a new parametric special purpose insurance (PSPI) class, which would establish a dedicated regulatory framework for fully collateralised parametric (re)insurance business in Bermuda through special purpose vehicles.
- **Why it matters:** This new class aims to address protection gaps associated with climate-related and emerging risks, while broadening the range of eligible insureds and providing greater flexibility for established parametric risk transfer solutions within a dedicated regulatory framework.
- **What to do next:** (Re)insurers that currently underwrite, or are considering underwriting, parametric risk should carefully assess the proposal to evaluate whether establishing a PSPI would be an appropriate option for them. Market participants should consider participating in the consultation process ahead of the 27 February 2026 deadline.

On 21 January 2026, the Bermuda Monetary Authority (BMA) released a consultation paper (Consultation Paper) proposing the introduction of a new category of special purpose insurance called the parametric special purpose insurance (PSPI) class.[1] A PSPI (re)insurer is a (re)insurer that writes fully collateralised (re)insurance parametric cover for sophisticated corporates, (re)insurers, governments and government-sponsored entities. The proposal would amend the existing Insurance Act 1978 to introduce PSPI as an additional (re)insurer class.

The PSPI class is intended to provide a dedicated framework for Bermuda-based (re)insurers to utilise parametric insurance models. Parametric insurance is a form of insurance that provides for payment upon the occurrence of a specified event or the satisfaction of predefined, objective parameters, rather than by reference to an assessment of the actual loss incurred. By way of example, a parametric cover may provide for a fixed payout if a specified threshold (such as wind speed or earthquake magnitude) is recorded at a specified location, by reference to independent data, which means that policyholders receive payouts more quickly than under traditional (re)insurance.

The BMA's proposal to introduce the new PSPI class is driven by high demand for (re)insurance solutions to bridge the coverage gaps arising from climate and other emerging risks. In the Consultation Paper, the BMA highlights the increasing

[1] Bermuda Monetary Authority, "Consultation Paper – New Insurer Class: Parametric Special Purpose Insurance," 21 January 2026 (Consultation Paper).

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frequency and severity of natural catastrophe events, as well as the growth of non-catastrophe risks such as cyber risk, as contributing to a widening global protection gap. The BMA has positioned the PSPI class as part of Bermuda's broader innovative strategy within the insurance-linked securities market, with a view to supplementing its existing special purpose insurance regulatory framework.

The deadline for responses to the Consultation Paper is **27 February 2026**, with the BMA seeking to add the PSPI class to the Insurance Act 1978 prior to the end of Q2 2026. The BMA has also indicated that a further technical consultation on guidance for operating under the PSPI class is expected in late Q2 or early Q3 2026.[2]

Key Features of the Proposed PSPI Regulatory Framework

Proposed Scope and Interaction With the Existing Special Purpose Insurer (SPI) Framework

The PSPI framework will apply to (re)insurers that write fully collateralised (re)insurance business and transfer risk using parametric covers. Additionally, the BMA has clarified that the PSPI regime will be reserved for traditional parametric business. This means that parametric transactions would continue to be structured as fully collateralised special purpose vehicles, but within a regulatory framework specifically calibrated to parametric risk transfer.

The new PSPI framework will maintain the core pillars of the existing SPI framework, including the continued use of solvency-remote, fully collateralised special purpose vehicles and a nominal paid-up capital requirement, while introducing targeted modifications relating to the scope and regulatory treatment of parametric insurance. The BMA also proposes keeping the differentiation between restricted and unrestricted business strategies for the PSPI framework, reflecting whether a PSPI may assume parametric (re)insurance risk from specified counterparties only or more broadly with eligible counterparties, subject to BMA approval.

Eligible Cedents

The BMA proposes expanding the range of eligible cedents for PSPIs beyond the current SPI requirements. In addition to regulated (re)insurers rated A- or higher, PSPIs may transact with other sophisticated cedents, such as qualified corporates and entities with mature risk functions. Cedent eligibility will continue to be assessed by reference to sophistication and risk-management capability rather than being open-ended.

Collateralisation and Capital Requirements

PSPIs will be required to be fully collateralised on an aggregate limit-per-contract basis, ensuring that collateral (in the form of cash, cash equivalents or letters of credit) is always equal to or greater than the (re)insurer's full exposure limit. Where collateral assets are invested, they must be held in high-quality, low-risk instruments, in a manner that is consistent with the SPI regime.

Governance and Oversight

Governance requirements will be proportionate to the nature, scale and complexity of the (re)insurer. Board composition must ensure robust oversight in line with the BMA's Insurance Code of Conduct. Third-party validation (by, *e.g.*, claims assessors, consultants or technology providers) will be required, with all external parties needing to meet BMA's standards of sophistication.

Fees and Implementation

Registration and annual business fees for PSPIs will align with current SPI fees: $10,000 for restricted and $15,000 for unrestricted structures. Notably, the BMA proposes waiving these fees for the first year the PSPI class is in operation.

Contractual Certainty and Use of Derivatives

PSPIs must demonstrate contractual certainty in governing documents for each transaction. The framework will also allow, on a case-by-case basis and subject to BMA approval, the use of swaps and derivatives as a permitted means of executing parametric covers within the PSPI framework. The Consultation Paper does not propose a separate hedging framework for PSPI risks; rather, it emphasises structural risk mitigation through the fully collateralised, solvency-remote structure of PSPI arrangements.

Implications for Bermuda (Re)insurers

If these proposals are implemented, (re)insurers should consider the following implications:

- Existing SPIs that currently write parametric business will not be required to migrate to the PSPI class, preserving optionality for established structures and avoiding transitional disruption.
- The expanded range of eligible cedents may support greater use of parametric solutions by sophisticated corporates and other non-insurance buyers, potentially broadening the addressable market for Bermuda-based parametric transactions.

[2] Consultation Paper, para 17.

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- All PSPI contracts must be fully collateralised, with collateral held in cash, cash equivalents or high-quality, low-risk assets. This reinforces the solvency-remote nature of PSPI structures, with implications for funding mechanisms, collateral management and transaction economics.
- The proposed regime maintains the distinction between restricted and unrestricted strategies, allowing flexibility based on transaction complexity and counterparty profile.
- Swaps and derivatives may be permitted for parametric covers, subject to case-by-case regulatory approval, introducing additional execution and structuring options while retaining regulatory oversight.

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