

# BEST'S RATING REPORT



## BMO Reinsurance Limited

Cedar Court, Wildey Business Park, Wildey, St. Michael, Barbados

**AMB #:** 056229

**NAIC #:** N/A

**AIIN#:** AA-3160075

**Phone:** 246-622-6673

**Fax:** 246-622-6636

**Website:** [www.bmoreinsurance.com](http://www.bmoreinsurance.com)



# BMO Reinsurance Limited

**Report Release Date:**

April 25, 2019

**Group Members Rating Effective Date:**

April 17, 2019

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

## Analytical Contacts

**A.M. Best Rating Services, Inc.**

Kevin Varvaro

Financial Analyst

[Kevin.Varvaro@ambest.com](mailto:Kevin.Varvaro@ambest.com)

+1(908) 439-2200 Ext. 5487

William Pargeans

Director

[William.Pargeans@ambest.com](mailto:William.Pargeans@ambest.com)

+1(908) 439-2200 Ext. 5359

**Ultimate Parent:** [030194 - Bank of Montreal](#)
**A.M. Best Rating Unit:** 056229 - BMO Reinsurance Limited

## Best's Credit Ratings:

Rating Effective Date: April 17, 2019

<b>Best's Financial Strength Rating:</b>	A	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a+	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed

## Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
04/17/2019	A	Stable	Affirmed	a+	Stable	Affirmed
04/19/2018	A	Stable	Affirmed	a+	Stable	Affirmed
04/05/2017	A	Stable	Affirmed	a+	Stable	Affirmed
04/06/2016	A	Stable	Affirmed	a+	Stable	Affirmed
05/13/2015	A	Stable	Affirmed	a+	Stable	Affirmed
08/29/2014	A	Stable	Affirmed	a+	Stable	Affirmed

## Rating Rationale:

### Balance Sheet Strength: Very Strong

- Very strong balance sheet strength as measured by Best's Capital Adequacy Ratio (BCAR) model and other qualitative factors.
- Conservative investment portfolio composed entirely of high quality government and corporate bonds and cash/cash equivalent assets.
- Capital does not accumulate as the company dividends out most, if not all, earnings.

## Operating Performance: Strong

- Long track record of a consistently high return on equity and substantial cash flow generation, despite some volatility from its non-life business lines.
- Very favorable underwriting results over the long term, despite some volatility in the property catastrophe and specialty property and casualty lines.
- The company maintains a very high dividend payout ratio as most earnings are dividended upstream.

## Business Profile: Neutral

- As a profitable subsidiary of one of the five largest Canadian banks sharing the same brand name, BMO Reinsurance Limited (BMO Re) has a significant market profile to leverage.
- BMO Re's core life creditor reinsurance business is viewed as lower risk on AM Best's product risk continuum due to the short duration and monthly paid premiums. The company diversifies its product offering with three other lines including property catastrophe, specialty P&C, and life reinsurance.
- Due to former Canadian tax law changes and upcoming Barbados tax law changes, the strategic advantage of being domiciled in Barbados has diminished moderately. Future economic and political risk within Barbados also has the potential to temporarily disrupt operations if a domicile relocation is deemed necessary.

## Enterprise Risk Management: Appropriate

- Benefits from the integration with the overall group risk framework of the Bank of Montreal, one of Canada's five largest banks.
- Well-defined risk appetite statement that specifies exposure targets and limits along with substantial policies and procedures in place to identify and report emerging and ongoing risks.
- Significant quantification of risks and dynamic capital adequacy testing to ensure the company can withstand multiple large property and casualty events occurring in the same period or a global pandemic.

## Outlook

The stable outlooks reflect BMO Re's very strong balance sheet strength and strong operating performance.

## Rating Drivers

A significant decline in the company's risk-adjusted capitalization could result in a negative rating action.

A sustained deterioration in operating performance could result in a negative rating action.

Negative rating actions at the Bank of Montreal could result in a negative rating action.

## Financial Data Notes:

**Time Period:** Annual - 2018

**Status:** N/A

**Data as of:** 03/06/2019

**Key Financial Indicators:****Key Financial Indicators (000)**

	Year End				
	2018	2017	2016	2015	2014
Premiums Written					
Gross Premiums Written	625,178	633,237	505,312	1,308,273	849,131
Net Premiums Written	618,157	611,667	366,998	972,456	517,573
Net Income	230,187	138,229	223,269	214,323	214,825
Total Assets	702,145	614,488	538,233	657,265	476,693
Total Equity	325,398	295,264	365,923	364,485	364,206

Source: Bestlink - Best's Statement File - Global

Local Currency: Canadian Dollar

**Key Financial Indicators - A.M. Best Ratios (%)**

	Year End				
	2018	2017	2016	2015	2014
Net Premiums Written to Equity	190.0	207.2	100.3	266.8	142.1
Liquidity					
Liquid assets to total liabilities	146.7	157.1	280.4	166.2	394.0
Total investments to total liabilities	146.7	157.1	280.4	166.2	394.0

Source: Bestlink - Best's Statement File - Global

(\* ) Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

**Best's Capital Adequacy Ratio Summary - AMB Rating Unit (%)**

<b>Confidence Level</b>	<b>95.0</b>	<b>99.0</b>	<b>99.5</b>	<b>99.6</b>
BCAR Score	56.9	43.4	37.9	36.2

Source: Best's Capital Adequacy Ratio Model - Universal

**Credit Analysis:**

Balance Sheet Strength: Very Strong

**Capitalization:**

BMO Re remains well capitalized with capital of \$C325 million, as of fiscal year-end October 31, 2018. In June of 2012, the company amended its Articles of Incorporation to create a new class of unlimited Class A Preferred Shares which is non-cumulative with dividends paid at the discretion of the directors. BMO RE issued 71 million shares to the company's shareholder, BMO Investments Limited, for a subscription price of CAD \$213 million. At the same time, BMO RE paid a common share dividend to BMO Investments Limited of CAD \$213 million which was funded by an issuance of a Dividend Note. The net impact of the preferred share issuance did not impact the capital levels of BMO RE, but changed a percentage of the capital make-up from common to preferred.

## Capitalization: (Continued...)

The dividend payout ratio for BMO RE has been and continues to be high. Despite shareholder dividends, risk-adjusted capital levels are assessed as "strongest" per Best's Capital Adequacy Ratio and are more than required to support the risks accepted on the company's balance sheet such as specialty property and casualty business.

Cash represents approximately one third of total invested assets. When added to liquid bonds of high credit quality, A.M. Best believes there is a significant amount of liquidity to support the liquidity needs of the company. The short duration of the investment portfolio accompanied by a strong cash position and a history of strong earnings enhances the company's liquidity position which is currently viewed as favorable.

## Capital Generation Analysis (000)

	Year End				
	2018	2017	2016	2015	2014
Common shares, ending balance	50,000	50,000	50,000	50,000	50,000
Preferred shares, ending balance	213,000	213,000	213,000	213,000	213,000
AOCI - ending balance	-7,163	-2,455	523	3,693	392
Retained earnings, beginning balance	34,719	102,400	97,792	100,814	111,144
Retained earnings, net income	230,187	138,229	223,269	214,323	214,825
Retained earnings, common dividends	80,721	85,087	90,356	89,812	93,039
Retained earnings, preferred dividends	114,624	120,823	128,305	127,533	132,116
Retained earnings, ending balance	69,561	34,719	102,400	97,792	100,814
Total shareholder equity	325,398	295,264	365,923	364,485	364,206

Source: Bestlink - Best's Statement File - Global  
Local Currency: Canadian Dollar

## Asset Liability Management – Investments:

The company's investment portfolio includes investment grade bonds and cash. Historically, the company has maintained a highly liquid investment portfolio with a large portion of invested assets in either cash or short term deposits. The company's investment policy continues to keep investment risk at a minimum and liquidity strong. Foreign currency risk on non-Canadian denominated bonds is hedged utilizing cross currency swaps. Given the large amount of cash and short term holdings interest rate risk and credit risk are not viewed as material.

## Holding Company Assessment:

**Associated Ultimate Parent:** 030194 - Bank of Montreal

BMO RE is a wholly owned subsidiary of BMO Investments Limited, a company incorporated in Bermuda. The ultimate parent is the Bank of Montreal, doing business as BMO Financial Group. (BMOFG) Established in 1817, BMOFG is a highly diversified financial services provider based in North America and is considered one of the big five Canadian banks. BMOFG provides a wide range of personal and commercial banking, wealth management, and investment banking products and services to over 12 million customers. As of BMOFG's fiscal year-end 2018 the company posted \$5.45 billion CAD in earnings on an equity base of \$45.7 million CAD. A.M. Best notes that BMO RE has the implicit support of their parent should it ever be required.

## Operating Performance: Strong

BMO Re has generated strong annual operating results historically with high returns on equity. Net premiums grew in 2018 due in large part to retaining more assumed business partially offset by lower creditor premiums which have been an industry wide trend.

Although creditor reinsurance remains the company's top line for earnings, BMO Re has three other programs in place for diversification benefits including property catastrophe, specialty P&C, and life reinsurance. Despite unfavorable claims experience in 2017 due to Hurricane Maria and other natural disasters leading to losses in the property catastrophe line and higher than expected claims in the company's specialty P&C lines creditor business remains highly profitable resulting in the company as a whole remaining highly profitable.

Creditor business covering life and disability reinsurance is BMO Re's core segment, as this product line consistently generates the most earnings. The company has secured reinsurance business from a number of reinsurance clients, and management has continued to focus on growing volume by selectively partnering with quality reinsurers. Earnings for the company are expected to remain strong over the medium-term.

BMO Re's investment strategy is conservative as the company has no equity holdings and investments are comprised primarily of short to medium term bonds. The bond portfolio is of high quality and primarily consists of bonds with A through AAA ratings with international diversification. Investment yield is low, reflecting its conservative and short duration investment portfolio. It is noted by A.M. Best however that BMO Re does not rely on investment income for earnings which has historically made up only a small portion of its overall earnings.

### Financial Performance Summary (000)

	Year End				
	2018	2017	2016	2015	2014
Pre-Tax Income	230,187	138,229	223,269	214,323	214,825
Net Income	230,187	138,229	223,269	214,323	214,825

Source: Bestlink - Best's Statement File - Global  
Local Currency: Canadian Dollar

### A.M. Best Ratios (%)

	Year End				
	2018	2017	2016	2015	2014
Overall Performance:					
Return on Assets	35.0	24.0	37.4	37.8	45.6
Return on Equity	74.2	41.8	61.1	58.8	58.0
Combined less Investment Ratio	63.2	74.3	54.0	74.3	57.7

Source: Bestlink - Best's Statement File - Global

## Business Profile: Neutral

BMO Reinsurance Limited (BMO Re) is incorporated under the laws of Barbados and is licensed under the Exempt Insurance Act. In 2019 Barbados repealed the Exempt Insurance Act however BMO Re was grandfathered into the former act and will remain under its tax regime until June 2021 at which point the company will be subject to a 2% income tax. BMO Re is a wholly owned subsidiary of BMO Investments Limited, a company incorporated in Bermuda. BMO Re has three primary product lines: creditor life and disability reinsurance, property and casualty reinsurance, and life reinsurance and retrocession. BMO Re began pursuing property catastrophe and specialty P&C product lines which are not yet considered to be core product lines. The ultimate parent is Bank of Montreal, established in 1817 and based in Canada. BMO Financial Group is a highly-diversified North American financial services organization. BMO Financial Group provides a broad range of retail banking, wealth management and investment banking products and solutions. BMO Re has total assets of \$702 million CAD as of October 31, 2018. The company reinsures risks from a number of North American and European Life and Health insurers and reinsurers, as well as general reinsurers. An ongoing business strategy has been to increase the volume of non-life in the international reinsurance market by leveraging BMO Re's financial strength and risk management capabilities to deliver strong bottom line returns.

BMO Re's market offering has expanded in recent years to include cyber, crop, marine, satellite, and aviation as a part of their specialty property and casualty program. The company's property catastrophe reinsurance program reinsures insured losses arising out of natural perils and includes industry loss warranties, ultimate net loss excess-of-loss treaties, and property casualty quota share treaties. These programs still remain a smaller portion of the company's overall book of business due to the consistent profitability of the creditor reinsurance line.

## Enterprise Risk Management: Appropriate

The company's enterprise risk management program (ERM) is integrated into the global ERM program established by its banking parent. Since counterparty relationships are mostly Modco based, asset risk is held on counterparty balance sheets, which are all highly rated entities. One of the primary risks to the company comes in the form of treaty agreements and claims verification, or operational type risk within the specific business lines the company participates in.

The company operates on a three-lines-of-defence operating model which is the standard of Bank of Montreal and its subsidiaries. The first line of defense is at the company level where regular reporting of delegated risk limits compared to actual exposures are created. The second line is the Enterprise Risk and Portfolio Management group (ERPM) along with Corporate Support Areas (CSA) which provide oversight and perform an independent assessment of risk. ERPM independently assesses, quantifies, monitors, and reports all significant risks to senior management and as appropriate, the Board of Directors. The third and final line of defense is the corporate audit division which conducts an internal audit assessing the effectiveness of internal controls with the group.

Significant regulatory changes remain one of the company's top risks although no immediate issues are expected. The regulatory authority in Barbados is the Financial Services Commission (FSC). The Insurance Act is the general law relating to insurance companies doing business in Barbados, whether locally incorporated or foreign companies. Under this law the company must have at least one director who is a resident citizen of Barbados. The FSC requires that statutory accounts prepared under International Accounting Standards be supplied on an annual basis. In addition, the Insurance Act requires the filing of Audited Financial statements with the FSC.

For exempt insurance companies, the Exempt Insurance Act requires a minimum solvency margin of the greater of: 1) BBD 250,000; 2) 20% of net earned premiums equal to or less than BBD 10 million; and 3) BBD 2 million plus 10% of net earned premiums in excess of BBD 10 million. Under the terms of the Exempt Insurance Act of Barbados, the company is subject to zero percent tax for the first 15 years of its operations with the ability to apply for an additional 15 year exemption, and, thereafter, charged at the rate of 8% per annum on the first US\$125,000 of taxable income. With the repeal of the Exempt Insurance Act in 2019 many companies fall under a new tax regime however BMO Re has been grandfathered into remaining under the act until June 2021 at which point it will be subject to a 2% income tax.

## Financial Statements:

### Balance Sheet:

#### Balance Sheet:

<b>Assets</b>	<b>10/31/2018</b>	<b>10/31/2018</b>	<b>10/31/2018</b>
	<b>CAD(000)</b>	<b>% of total</b>	<b>USD(000)</b>
Cash And Equivalents	71,454	10.2	54,461
Long Term Fixed Maturity Investments	385,661	54.9	293,943
Short Term Investments	95,702	13.6	72,942
Invested Assets	481,363	68.6	366,885
Receivables	123,987	17.7	94,500
Reinsurance Recoverable	2,254	0.3	1,718
Deferred Policy Acquisition Cost	17,201	2.5	13,110
Other Assets	5,886	0.8	4,486
<b>Total Assets</b>	<b>702,145</b>	<b>100.0</b>	<b>535,161</b>
<b>Liabilities &amp; Surplus</b>	<b>10/31/2018</b>	<b>10/31/2018</b>	<b>10/31/2018</b>
	<b>CAD(000)</b>	<b>% of total</b>	<b>USD(000)</b>
Life / Health Reserves	75,625	10.8	57,640
Property / Casualty Reserves	206,135	29.4	157,112
Unearned Premium Reserves	84,616	12.1	64,493
Total Policy Reserves	366,376	52.2	279,244
Other Liabilities	10,371	1.5	7,905
Total Liabilities	376,747	53.7	287,149
Equity - Nonconvertible Preferred	213,000	30.3	162,344
Equity - Common Stock	50,000	7.1	38,109
Accumulated Other Comprehensive Income	-7,162	-1.0	-5,459
Retained Earnings	69,560	9.9	53,017
Total Equity	325,398	46.3	248,012
<b>Total Liabilities &amp; Equity</b>	<b>702,145</b>	<b>100.0</b>	<b>535,161</b>

Source: Bestlink - Best's Statement File - Global

Local Currency: Canadian Dollar



**Summary of Operations:****Statement of Income (000)****Statement of Income**

	<b>10/31/2018</b>	<b>10/31/2018</b>
	<b>CAD(000)</b>	<b>USD(000)</b>
Reins Assumed	625,178	476,498
Gross Premiums Written	625,178	476,498
Reins Ceded	7,021	5,351
Net Premiums Written	618,157	471,147
Change In Unearned Premiums	-5,292	-4,033
Net Premiums Earned	623,449	475,180
Net Investment Income	6,114	4,660
Net Realized Gains/(Losses)	458	349
Total Revenue	630,021	480,189
Benefits & Reserves	305,520	232,861
Operating Expenses	94,314	71,884
Total Benefits & Expenses	399,834	304,745
Earnings before interest & taxes (EBIT)	230,187	175,444
Pre-Tax Income/(Loss) From Continuing Operations	230,187	175,444
Net Income/(Loss) Before Minority Interest	230,187	175,444
Net Income/(Loss) From Continuing Operations	230,187	175,444
Net Income	230,187	175,444

Source: Bestlink - Best's Statement File - Global

Local Currency: Canadian Dollar

# BMO Reinsurance Limited

**Report Revision Date:**  
April 25, 2019

## Company Attributes:

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**Industry:** Insurance  
**Business Type:** Composite  
**Entity Type:** Operating Company  
**Organization Type:** Stock  
**Business Status:** In Business - Actively Underwriting  
**Marketing Type:** Broker  
**Financial Size:** VIII (\$100 Million to \$250 Million)

## Company History:

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**Date Incorporated:** 09/29/1986

**Date Commenced:** N/A

**Domicile:** Barbados

The company is incorporated under the laws of Barbados and is licensed under the 1992 Exempt Insurance Act. It is authorized to issue an unlimited number of shares of one class designated as common shares. The company's share capital is comprised of 71 million Class A preferred shares with a stated value of \$213 million and 50 million Class A common shares with a stated value of \$50 million.

## Company Management:

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Last significant update on 05/03/2018

### Officers

**Chairman:** Wayne Fields  
**Deputy Chairman:** Peter McCarthy  
**President and CEO:** Todd Wosminity  
**CFO:** Paula Codrington

### Directors

Sir Paul B. Altman  
Sir Trevor A. Carmichael  
Wayne Fields (Chairman)  
Peter McCarthy  
James P. Walsh  
Todd Wosminity

## Regulatory:

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**Auditor:** KPMG

**Regulatory: (Continued...)**

An independent audit of the company's affairs through October 31, 2018, was conducted by KPMG.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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