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A life on the ocean wave

A special report on Bermuda's enduring success

Reactions

02 A David and Goliath story

04 A renaissance underway

10 Bermuda Business Development Agency

12 Equivalence at last

14 Appleby

Bermuda: David in a world of financial Goliaths

Given that it is one of the smallest territories in the world, many would be surprised at the integral role Bermuda plays in managing the economic fallout after natural disasters.

As arguably the leading global market for property catastrophe reinsurance, Bermuda has welcomed a multitude of new startups ever since its first foray into the industry when AIG founder Cornelius Starr opened American International Company, Ltd on the island in 1947.

While that may have been the first insurance company to open in Bermuda, it was not until the 1960s and 1970s when Bermuda's captive industry started to take off that the international risk transfer industry started to pay greater attention to the island.

Up until the early 1980s, Bermuda focused more or less exclusively on the captive insurance market, and it continues to be one of the leading jurisdictions for these specialist vehicles. As of December 31, 2014, Bermuda boasted 800 active captives, while that had slightly decreased to 797 come the end of 2015.

In the middle of the 1980s though, Bermuda began to welcome a host of new insurance company startups, for example Ace Ltd and XL Capital.

However, it was in the aftermath of Hurricane Andrew in August 1992 that Bermuda truly began to emerge as one of the leading jurisdictions for global insurance and reinsurance.

Reinsurers either exited the property catastrophe market or pushed up rates in the wake of paying out losses totalling \$15.5bn from the storm, and in response capital entered the market in the form of new company launches to take

advantage of the tougher pricing and high demand for coverage. Mid-Ocean Re, Global Capital Re, Cat Ltd, Tempest Re, LaSalle Re, IPCRe, PartnerRe and RenaissanceRe all opened their doors for business in 1992 and 1993.

Since then, more companies have opened up on the island, often in the aftermath of other disasters which have caused considerable losses and had a significant impact on worldwide re/insurance pricing such as the September 11 terrorist attacks in 2001 and the 2005 North Atlantic hurricane season which saw claims from Katrina, Rita and Wilma take a heavy toll on

“In recent years the Bermudian market has diversified well beyond providing just property catastrophe reinsurance”

the property catastrophe market.

In recent years though, the Bermudian market has diversified well beyond providing just property catastrophe reinsurance, and those operating on the island provide a vast range of coverages in the wider property, casualty and specialty sectors.

Furthermore, the new insurance and reinsurance companies that have opened up on the island in recent years have not done so to take advantage of improved pricing. Instead, many of the new companies, for example Watford Re and Fidelis Insurance Holdings, are backed by hedge funds, pension funds and sovereign wealth funds looking to diversify their own investment opportunities. Indeed, it could be argued that insurance itself as developed into an asset class for investors, and many of these assets are based in Bermuda.

At the same time, other non-traditional insurance and reinsurance ventures such as sidecars and insurance linked securities have found a natural home on the island, and these vehicles continue to grow in number and scale.

And the island's market continues to grow, as shown by figures from the Bermuda Monetary Authority which show that 64 new re/insurance companies opened up on the island in 2015, compared with 65 in the previous year. Of those that opened in 2015, 22 were limited purpose insurers or captives, an increase of six year on year.

Bermuda welcomed 13 new Class 3A, 3B and 4 commercial general business re/insurers last year, up from the 11 that opened in 2014. The Class 4 re/insurers to have opened in Bermuda in 2015 were Qatar Reinsurance Company Ltd, ABR Reinsurance Ltd, Third Point Reinsurance (USA) Ltd and the aforementioned Fidelis.

According to law firm Conyers Dill & Pearman's Bermuda Insurance Update which was released last September, the \$1.5bn capitalisation of Fidelis was the largest Class 4 commercial reinsurance start-up in Bermuda since those that were launched following Hurricanes Katrina, Rita and Wilma in 2005.

While Bermuda's re/insurance market continues to grow, the island is also looking to build out its operations in other areas of the financial services industry like the trusts and asset manager sector. At the same time, the awarding of the 2017 Americas Cup has focused yet more attention on the island, and that is likely to continue even after the famous yacht race has finished.

● By Christopher Munro – christopher.munro@euromoneyplc.com

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Bermuda renaissance underway

Positive economic indicators suggest Bermuda is exiting its recession and the island is now looking to open up new avenues of opportunity.

There is little doubt that after a period of economic strain, the signs are there that Bermuda is catching up with other major economies of the western world and emerging from the financial crisis.

Bermuda has traditionally lagged behind the largest western markets when it comes to either positive or negative impacts on its economy, and the after effects of the 2008 financial crisis have taken time to settle. But the island is now recovering from the stresses and strains of that economic disaster.

At the beginning of 2015, analysts predicted that Bermuda would finally begin to move out of the recession that had plagued the island for six years. And, in June last year, came the announcement from Finance Minister Bob Richards that the island had in fact begun to escape its economic malaise.

Figures released at the beginning of this year for 2015's third quarter give further credence to Richards' comments. According to those government numbers, Bermuda's economic growth has picked up the pace,

a positive sign that the island is onto a far firmer footing.

Bermuda's gross domestic product (GDP) during 2015's third quarter increased by 6.3% year on year to \$1.35bn. Real GDP growth, which is adjusted for inflation, totalled 4.4%, according to the data from the Bermuda authorities.

Third quarter real GDP growth of 4.4% followed on from first quarter and second quarter real GDP growth of 1.5% and 1.6% respectively, showing the island is well on course for recording its first full year of economic growth since before the onset of the financial crisis back in 2008.

This suggests there will be an improvement on the real GDP growth of -0.4% that Bermuda experienced in 2014.

The GDP growth is an encouraging sign for an economy that has suffered in recent years, and the island's government is doing all it can to ensure that Bermuda continues to grow.

While the support of Bermuda's existing stakeholders remains as important as ever, Ross Webber, the chief executive of the Bermuda Business Development Agency (BDA), said the island's government is pro-actively seeking to attract all sorts of new companies to its shores, be they insurers,

captives, funds, asset managers, trusts, high net worth individuals or family offices. This way, Bermuda will be able to diversify its economy.

"Our 'international commerce' work hones in on promising technology, life science and biomed-related initiatives that have the potential for physical presence and jobs on the island. We have assisted companies like Nova, a tech start-up, and Roivant Sciences - a biopharmaceutical firm that took Axovant public last year with the biggest ever biotech initial public offering," said Webber. "We expect to leverage them as case-study examples to attract more of their kind."

Bermuda is also looking to promote itself as a hub for e-commerce, explained Webber, particularly for the Canadian market which is a good match to the island owing to its close proximity, infrastructure and efficient regulatory and tax system.

"Blue-sky or out-of-the box initiatives aside, the BDA is also re-energising sectors where Bermuda already has excellence and a proven track record," Webber added. "The BDA is systematically revitalising the island's shipping and aviation sectors, to grow their registries and the consequent spin of work

in these industries. The agency is also looking to attract more international arbitration work."

Bermuda's reinsurance industry is now well into its third decade, and new companies continue to be attracted to the island. Last year saw the creation of Fidelis Insurance Holdings in Bermuda, with the Richard Brindle-fronted business having secured a vast \$1.5bn in backing from three private equity firms and several other investors.

That Brindle, who retired as Lancashire Holdings' chief executive at the end of April 2014, chose Bermuda as the domicile for his new venture showed that the island remains a highly attractive jurisdiction. And that a further three Class 4 reinsurers - the largest carriers licensed by the Bermuda Monetary Authority (BMA) - opened in Bermuda during 2015 only further strengthens the island's credentials.

"Some of the world's smartest money has been voting with its feet and well respected industry executives and smart capital allocators have been picking Bermuda," said Stephen Weinstein, chief compliance officer, general counsel and secretary for RenaissanceRe Holdings.

"We strongly believe that

Bermuda is the best place in the world to domicile and headquarter a business like ours... The wealth of talent, expertise and infrastructure that's been built up in Bermuda over the last 30 years gives Bermuda a definite advantage, and any recent consolidation has been offset by new company formations."

As Weinstein noted, Bermuda is now home to industry leaders

Image: Bermuda Business Development Agency

proximity to financial centres such as New York and London, the island also has an attractive corporate tax rate of 0% while non-US employees based in Bermuda also enjoy 0% income tax.

However, while Bermuda is often lumped in with other so-called tax havens, the government is keen to point out that the island is markedly different from what some may

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Stephen Weinstein, chief compliance officer, general counsel and secretary, RenaissanceRe



who both value and support the island in its endeavours.

"We also have new recruits forming companies here after strong careers in other jurisdictions," he said. "I can't speak for them, but to see people of that calibre who have made a career in other markets but, when they raise new money, form new companies in Bermuda just shows it's got a lot to offer."

New startups remain attracted to Bermuda for a multitude of reasons. Aside from its close

regard as its peers.

"Bermuda is not a tax haven by the OECD's [Organisation for Economic Co-operation and Development] standards," Sean Moran, business development manager at the Bermuda Development Agency, said.

"Bermuda does not satisfy any of the OECD's tax haven criteria, other than it has a nominal tax structure that's not based around income tax," explained Moran. "Instead, it's structured

CONTINUED ON PAGE 06

around consumption tax and import duties.”

Furthermore, Bermuda does have a beneficial ownership register – a feature that many tax havens do not. Indeed, the OECD’s interpretation of a tax haven is a jurisdiction that does not have transparency over beneficial owners. But Bermuda does have this, although it is not publically available.

“Bermuda’s beneficial ownership register has been maintained by our regulator for over 70 years,” said Moran. “It’s just not a public register – it’s not posted online or anywhere else. It’s kept confidential, but the BMA does collect that information at the outset of every company. The regulators and law enforcement services can all have access to this information if they go through

the Alternative Investment Fund Managers Directive (AIFMD), thereby allowing funds based on the island to market themselves within the EU.

Currently, funds outside the EU have to undertake a rigorous and time consuming process to market themselves to prospective investors based within EU member states. However, should a jurisdiction be granted passport status, then funds based within that jurisdiction will be able to market themselves to the EU.

Bermuda, along with other jurisdictions such as the US, the Cayman Islands, Singapore, Switzerland, Guernsey, Jersey and others, is now applying to be granted this marketing passport.

Moran believes that Bermuda is well placed to be handed passport status, partly because of

access the EU,” said Moran. “If Bermuda can offer an AIFMD-compliant regime, those US firms can set up a management entity in Bermuda and market their funds from that entity into the EU. It’ll be a win-win for both Bermuda and the US.”

Bermuda’s market leading insurance linked securities (ILS) sector would also be further strengthened by the marketing passport, explained Moran.

“European investors, in particular pension funds, are looking for new investment opportunities and there are few ways for them to access ILS funds at the moment. This passport would make it easier for them to do so.”

Moran is also working on growing Bermuda’s trust and private client industry, a move that makes a lot of sense when considering the assets that the island’s re/insurance industry – and its senior employees – hold.

“Both Bermuda’s insurance industry and healthy trust and private client market have large pools of assets that need to be professionally managed,” said Moran. “Often times, that’s done outside of Bermuda, but there’s no reason it can’t be done in Bermuda. I think it would be the preference for many of those companies to have their asset manager just down the road, and that’s something that we’re looking to develop.

“There are lots of wealthy individuals in Bermuda who want their assets to be managed locally. We’re looking to build the family office in Bermuda - there’s a suite of services required by high net worth individuals. They have money that needs management, they may need insurance, perhaps avenues for philanthropic activities, all of which can be managed in Bermuda. We have some of that already, but it would be good to have more variety.”

Bermuda is also looking to expand its economy through the further development of its tourism industry. As part of that, the island will soon be home to several new hotels and resorts.

CONTINUED ON PAGE 08

“Bermuda’s insurance industry and healthy trust and private client market have large pools of assets that need to be professionally managed ... there’s no reason it can’t be done in Bermuda.”

Sean Moran, business development manager,
Bermuda Development Agency



the formal processes. And that is what the true tax havens do not have at this time.”

While Bermuda has a reputation for being a leading insurance and reinsurance hub, the island is also looking to develop into other areas of the financial services industry. One example is Moran’s work in growing Bermuda’s asset management and trust and private client industry.

While the Cayman Islands can boast some 12,000 funds and numerous service providers, just 1,000 funds are currently registered with the BMA.

Although Bermuda is looking to grow this aspect of its financial services industry, Moran said it is not trying to be the “new Cayman Islands”.

By having a smaller and more manageable fund register, Bermuda is hopeful the European Union will look upon it favourably and grant it marketing passport status under

the strength of the BMA. At the same time, the BMA and the EU already have close ties because of the work the two regulators have undertaken regarding the Solvency II equivalence that was granted late last year.

“Solvency II equivalence is a huge feather in our cap because [the EU is already] familiar with the BMA and they’re familiar with its chief executive Jeremy Cox. That the BMA is able to regulate a very sophisticated insurance and reinsurance industry means it can effectively regulate our very manageable funds industry.”

Not only would being granted passport status give those funds already based in Bermuda new opportunities to grow their operations, it would make funds based outside the island think about moving.

“If you’re a US based hedge fund manager and the US does not get approved for its passport, you might look for other ways to

23

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These have been in the planning for many years now, but the awarding of the 2017 America's Cup has provided a much needed catalyst to get these projects off the ground.

But the America's Cup is just one element of the drive to grow Bermuda's tourism industry, as two of the island's governmental bodies – the Bermuda Tourism Authority and the Bermuda Business Development Agency – have been working hard to bring in visitors and get new businesses to set up operations within the British Overseas Territory.

A major \$100m revamp of the Fairmont Hamilton Princess hotel, as well as the creation of a new marina at the resort, is just one of the tourism developments designed to bring the island more up to date in order to attract additional visitors.

A far larger project is underway in the south west of Bermuda however, with remediation efforts to clean up the former US military base on Morgan's Point having been completed at the beginning of this year. This major project saw the removal of asbestos, oil storage facilities and the demolition of old buildings. Completion of the remediation work, which was overseen by the Ministry of Public Works along with several contractors, means that a new luxury hotel development can now be built.

The former US military base has been restored to standards that match those in New Jersey, and the Ministry of Public Works was assisted by the consulting firm Langan Engineering and Environmental Services.

The first part of the project will see more than 150 waterfront residences being built as well as the new hotel which is expected to boast close to 80 rooms. Other amenities such as restaurants and a marina which can house 77 boats, as well as 21 mega-yachts, also form part of this initial redevelopment of Morgan's Point.

On top of this, plans are afoot to build a new hotel complex in St George's, close to Bermuda's airport in the northwest of the

island, with groundbreaking set for the first quarter of 2016.

This project includes a 122 room hotel, as well as renovations of the existing St George's Golf Course. There are also plans to open a casino and additional residential properties.

These developments are timely as Bermuda will be welcoming the 35th iteration of the prestigious boat race The America's Cup next year. The decision to hand Bermuda the race was announced in late 2014, and since then the island has

“The America's Cup is a catalyst for the resurgence of Bermuda's economy and that is particularly true for the tourism sector”

Jessica Mello, deputy chair of the Bermuda Tourism Authority's board of directors



been caught up in a fervour at the prospect of highlighting all the island has to offer to a global audience.

“The America's Cup is a catalyst for the resurgence of Bermuda's economy and that is particularly true for the tourism sector,” Jessica Mello, deputy chair of the Bermuda Tourism Authority's board of directors, told *Reactions*.

“Marina development and hotel construction projects are accelerating to meet the 2017 timeline of the America's Cup. International sailing events like the M32 Winter Series, RC44 and the Viper North America Race have recently moved to Bermuda because regatta organisers say they want to experience the same racecourse the pros will compete on in 2017. Cruise lines are repositioning their vessels to take advantage of the event [and] some are considering charter deployments.”

While the awarding of The America's Cup provoked much fanfare on the island, there was a small element of scepticism among some of the island's inhabitants about what the long-term positives of the event would be. There were also further doubts about whether Bermuda would truly be able to harness some of the fervour that has so

far accompanied the race into a positive legacy for the island.

Early indications have been positive however, as Mello, who is also a director at Deloitte Consulting on the island, highlighted.

“The America's Cup related results we experienced in October during the Louis Vuitton America's Cup World Series gave plenty of reason for optimism. Total visitor arrivals for that month were up 44% year-over-year, including a 12% jump in air arrivals and a 16%

jump in hotel room occupancy. Tourism-related retail sales jumped almost one-third.”

But the big challenge is ensuring that the arrival of the America's Cup, which will take place during the month of June in 2017, has a legacy benefit for Bermuda and its tourism industry that goes far beyond the race itself. That is not lost on Mello and the Bermuda Tourism Authority.

“Our marketing team is leveraging the excitement of the America's Cup to reintroduce Bermuda to travellers who enjoy exploration and adventure of all kinds. Media interest and exposure has increased sharply and we are partnering with other America's Cup sponsors to reach highly sought after consumers who are loyal to lifestyle brands like Louis Vuitton, Bremont, Moët, BMW and Vineyard Vines.”

That Bermuda has been named as one of the “must visit” places of 2016 by publications such as National Geographic Traveler and Conde Nast Traveler has also given the island a timely boost.

“We feel very strongly that Bermuda's tourism industry is heading in a very positive direction,” added Mello.

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Why Bermuda stands apart as a blue-chip jurisdiction

Europe's endorsement of Bermuda for Solvency II equivalence speaks volumes about the jurisdiction's uniquely sophisticated status as a global finance centre. Trust, transparency and quality have been the jurisdiction's distinctive hallmarks as a centre for international business for well over a century—fundamental characteristics that have fuelled investor confidence and shaped this British Overseas Territory as a blue-chip domicile for global trade and investment.

Bermuda's top-tier legacy relies on tangible credentials such as compliant regulation, economic efficiency and excellent infrastructure to intangible factors like history, location, reputation and relationships. All have combined to create a fair, stable and streamlined centre that not only proves successful in and of itself, but which also fuels the kind of cross-border investment flow that supports jobs and facilitates economic development globally.

Bermuda's competitive advantages are many, but here's a top-10 list of key components that set the island apart from competing jurisdictions:

1) Connectivity & critical mass

Bermuda is a multi-disciplinary financial market that attracts top talent and a wide variety of complementary industries. Most notably, it is the accepted “world's risk capital,” a hub for the risk-transfer industry. Bermuda is one of three major re/insurance centres, alongside London and New York, with 15 of the world's top 40 reinsurance companies based on the island. As well as underwriting global risks, and consequently shoring up national economies, these companies act as major institutional investors, their substantial capital providing liquidity to financial markets. The jurisdiction is also the single most important property and catastrophe market and

the largest captive insurance market. In recent years, it has also attracted the lion's share of ILS listings (some \$18.5bn, or more than 75% of global capacity, by the end of 2015).

Yet the scope of Bermuda's economic base extends far beyond insurance. The island is also a thriving centre for funds, trusts, private-client and family-offices structures, a global ship registry, ship-management firms, an aviation registry—even blue-sky ventures ranging from marine-sourced pharmaceuticals to ecommerce and technology start-ups. The sophisticated infrastructure and corporate ecosystem such cross-sector synergy breeds has made Bermuda a magnet for global enterprises.

“Bermuda's top-tier legacy relies on tangible credentials such as compliant regulation, economic efficiency and excellent infrastructure”

2) Respected regulation

Last November, the European Commission awarded Bermuda full Solvency II equivalence. The decision enables island-based re/insurance companies to be treated on equal footing with European Union markets, while providing European businesses and insurers crucial access to the Bermuda market's capacity and claims-paying record. The decision underscores not only Bermuda's long-respected record of compliance with international standards, but also its leadership on regulatory best practices.

The island is one of seven qualified jurisdictions as selected by the US National Association of Insurance Commissioners (NAIC), and in the asset management sphere, it is among the current selection of third-country assessments for non-EU ‘passport’ rights under the Alternative Investment Fund Managers Directive

(AIFMD)—of benefit to both Bermuda-based hedge-fund managers and EU-based investors. Bermuda's high level of international cooperation is evident in its numerous treaty partnerships with nations around the world. The figures are telling: 87 co-signatories under the multi-lateral Convention on Mutual Administrative Assistance in Tax Matters and 41 bilateral Tax Information Exchange Agreements (TIEAs).

Bermuda is recognised as a leader on tax-transparency issues by independent bodies such as the Organisation for Economic Co-operation and Development (OECD), the Financial Action Task Force (FATF), and G20 nations. The

island is compliant with US and UK anti-money laundering (AML) and anti-terrorist financing (ATF) requirements, and has zero bank-secrecy laws. Bermuda's corporate beneficial ownership register was established decades ago, enabling qualified authorities to share essential information responsibly.

Since its establishment in 1969, the island's regulator, the Bermuda Monetary Authority (BMA), has taken a pragmatic, consultative approach to compliance. It works closely with Bermuda-based industry and government stakeholders, as well as international regulatory bodies, to keep Bermuda's oversight of financial entities responsive and contemporary. Indicative of the body's experience, in 2016, the BMA's deputy director of policy and research was appointed chair of the International Association of Insurance Supervisors (IAIS) Reinsurance Task Force.

3) Globalisation

Bermuda fulfils a critical role in the global economy as a top-tier IFC. Its economic model supports close to a half-million jobs globally, creating and supporting jobs not only on the island itself, but also in its onshore trading partners. This includes an estimated 350,000 jobs in the US and more than 100,000 in the UK through trade, foreign direct investment, and portfolio investment capacity—facilitating economic globalisation. Bermuda's fiscal contribution to the world is particularly evident in the re/insurance sector: island-based companies contributed \$35bn to US catastrophe losses between 2001–12, including 9% of 9/11 losses; 51% of reported liabilities from 2010's New Zealand earthquake; and a third of insured losses from Hurricanes Katrina, Rita and Wilma. Bermuda covers 25% of US medical liability re/insurance, and provides a quarter of capacity at Lloyd's of London.

4) Location, location, location

Bermuda is not in the Caribbean—geographically or socio-economically. At 21 square miles, the island is located 650 miles (1,000km) east-southeast of Cape Hatteras, NC, the nearest mainland. With daily direct flights to US gateway cities, Toronto and London, Bermuda is a mid-Atlantic destination, yet less than a 90-minute flight from New York. Such physical proximity is a big plus for business travellers and tourists to the jurisdiction. Moreover, Bermuda's favourable Atlantic Time (AT) zone between North America and Europe, makes it ideal for companies serving global markets.

5) World-class talent

An estimated 3,700 international business employees—including 2,000 (60%) Bermudians—contribute directly to all economic sectors in Bermuda, from retail to transport. The economic impact is naturally substantial; indeed, more than 60% of Bermuda's foreign revenues can be attributed to international business activity. The secret to this success is people: Bermuda complements its own talent pool by attracting a highly skilled and globally mobile workforce, all embodying a breadth of knowledge and expertise across industry sectors. Leading (Big Four) accounting firms are here, along with auditors, financial advisers, lawyers,

IT specialists, actuaries, re/insurance underwriters, brokers, and support services—all within the easily-accessible two-square-mile parameters of the City of Hamilton. In this milieu, long-term business relationships are Bermuda's most valuable currency. Quality financial intermediaries have a decades-long history of working together; such long-time corporate relationships and collaboration make Bermuda unique.

6) Corporate innovation

Bermuda has a track record of ‘firsts’—the world's first captive insurers were born here, as well as the first true excess liability carriers, the first prop cats and cat bonds. In 2009, Bermuda was the first offshore

“Bermuda complements its own talent pool by attracting a highly skilled and globally mobile workforce”

jurisdiction to make the OECD's white list, demonstrating the jurisdiction's regulatory leadership. The insurance capacity crunch of the 1980s was solved in Bermuda; alternative risk-financing and the convergence of insurance and capital markets is now forging the future.

7) Tax neutrality

Bermuda is a tax-neutral jurisdiction, with zero income or corporate taxes. Its consumption-based system does, however, levy payroll tax, import duties, social insurance, and custom duties on goods and services—a major component of the island's tax revenues. Bermuda's unique tax system was designed to support its own infrastructure and the island does not differentiate between local companies and exempted (less than 60% Bermudian owned) ones in the way they are taxed; they are all treated equally.

Importantly, Bermuda does not qualify as a ‘tax haven’ under the OECD's definition. In 1998, the OECD identified four factors that should all be met to qualify jurisdictions as tax havens: lack of transparency; lack of information exchange; no substantial activity; and no or nominal tax on income. In its September 28, 2009 report, Countering Offshore Tax Evasion, the OECD found: “No or nominal tax is not sufficient in itself to classify a country as a tax haven.” The

United Nations and the World Trade Organisation agree that domestic tax laws are the sovereign right of nations and jurisdictions, regardless of whether they are based on consumption or income.

8) Political stability

Bermuda is a democratic, self-governing jurisdiction, currently with a two-party political system that provides stability and consistency. Respected worldwide, its government is known for a low-bureaucracy approach to business and historically strong support for the financial services industry. That environment enables corporate commitment to the jurisdiction and the ability for long-term financial planning by investors.

9) Legal legacy

Bermuda's judicial and legal structure is considered the oldest English-based court system in the New World. In 2016, the island marks the 400th anniversary of the first sitting of the Court of General Assize—on June 15, 1616. Such a robust, fair and transparent environment over so many years helps foster trust and certainty in those who do business here; the legal process is adept at dealing with complex financial transactions and enforcing judgements. Legislative provisions are updated regularly to keep Bermuda's laws up-to-date with changing requirements worldwide.

10) Quality lifestyle

Bermuda has one of the highest standards of living in the world, with excellent education, healthcare, housing, and services. The island has a temperate climate and sub-tropical beauty—including renowned beaches, golf courses and the world's northernmost coral reefs. As a domicile, Bermuda offers pure quality of life amid cutting-edge corporate ideas.

The corporate momentum such cross-sector synergy breeds is far greater than the actual sum of its parts. Bermuda's value is a direct result of all these elements—they come together to create a stimulating environment for economic activity that is hard, if not impossible, to replicate elsewhere.

SII equivalence boosts Bermuda's prospects

Bermuda will be kept waiting until the end of February for its Solvency II equivalence to be signed off, but optimism abounds that the new regulation is a positive move for the island.

Six years of hard work came to fruition in November when the European Commission (EC) awarded Bermuda full equivalence under the wide-reaching Solvency II directive.

Under the EC's Delegated Act, the body recognises that Bermuda's prudential framework for re/insurance and group supervision is fully equivalent with the Solvency II regulation that was finally introduced within the EU at the beginning of this year.

Although much of the legislation introduced by Bermuda is similar to that which has been imposed on re/insurers in the EU, there is a considerable carve out for the island's large and prosperous captive industry.

Bermuda's equivalence status was signed off on November 26, 2015, although a 90 day review is currently being conducted by the EC and European Parliament. Once that review is completed towards the end of February, then the Delegated Act will come into force. Bermuda's equivalence under Solvency II will then be applied retroactively back to January 1, 2016.

Come the end of February therefore, and presuming that no one objects to Bermuda being granted the status during the 90 day review, then the island will be considered by all European member states as applying an equivalent statutory insurance regime to that which exists under Solvency II.

The Delegated Act covers full equivalence for Bermuda reinsurers licensed as Class 3A, 3B, 4, Class C, Class D and Class

E and Bermuda-based insurers.

In the aftermath of the November 26 decision, the chief executive of the Bermuda Monetary Authority, Jeremy Cox, says the EC's decision to grant Bermuda equivalency status would help to secure the island's future as a strong financial services centre.

"It's an exciting time for us," says Cox. "The world is watching to see how Europe will transform its risk industry and improve the protection of its policyholders. The world will also be watching to see how Bermuda plays its part in this epic transformation. It has been a long journey and an incredible amount of work has gone into this over the past six years. At the Authority, we are delighted that it is now on the brink of successful completion."

"Solvency II equivalence would mean Bermuda's commercial re/insurers and insurance groups will not be disadvantaged when competing for, and writing, business in the EU. Being an early adopter of Solvency II has granted certainty to commercial re/insurers operating from Bermuda."

It is not only those based on the island that are pleased with the EC's decision to hand Bermuda Solvency II equivalency status, with Jo Willaert, president, Federation of European Risk Management Associations (FERMA), also quick to give his support to the move.

"It is of great importance that European industrial and financial business entities have continued access to important commercial insurance and

reinsurance capacity from Bermuda commercial insurers and reinsurers," says Willaert.

"FERMA, therefore, welcomes the decision of the European Commission to grant a full equivalence decision of the Bermudian supervisory system in relation to articles 172, 227 and 260 of the Solvency II directive."

Although the 90 day review means there is still a chance Bermuda's bid to be granted Solvency II equivalency status will not be rubber stamped, there is the sense that after the six years of discussions, this final hurdle will be cleared and the island's re/insurance industry will be able to operate under the same standards as its cohorts within the EU.

And many within the re/insurance industry on Bermuda have been quick to praise the efforts of those involved in the lengthy regulatory process.

"Bermuda's full equivalency under Solvency II is well deserved and a positive for its insurance sector," Stephen Weinstein, chief compliance officer, general counsel and secretary at RenaissanceRe, told *Reactions*.

"In our view, the Bermuda regulatory system is robust, world class, sophisticated and appropriately designed to provide the highest level of transparency and policy holder protection. All the personnel who helped achieve this notable distinction, both in Europe and Bermuda, deserve our esteem and appreciation."

As Weinstein explained, while Solvency II equivalence is not a critical issue for RenaissanceRe, having it will mean that its customers in Europe and the communities they serve will continue to have access to

Bermuda's sizable re/insurance capacity and expertise on an even and level playing field basis, a situation which can only be seen as a positive.

"Qualitatively, it's a vote of confidence for a process that proves Bermuda's regulatory regime meets the world's highest standards," Weinstein added. "Not only does it provide another layer of comfort for clients, but also demonstrates that for the reinsurance business, Bermuda is the best place in the world to domicile and operate."

There is little doubt that Solvency II equivalence will give Bermuda yet further clout in the global re/insurance industry. The future looks bright for the industry on the island, and the government is doing all it can to ensure that it remains at the forefront of the worldwide risk bearing market.

While many in Bermuda's re/insurance industry will be pleased at the island being granted Solvency II equivalence, there have been a small number of dissenting voices who are displeased at the prospect of operating under what is likely to be a more onerous regulatory regime.

Aside from being on par with regulators in Europe, one of the arguments for seeking Solvency II equivalence was that there is likely to be increased oversight of all financial services firms in the years ahead, so it made sense to be proactive and get up to speed on such regulation before it is forcibly imposed.

Regardless, there are rumoured to have been some in the Bermudian market who have expressed displeasure at the prospect of their businesses being looked at in greater detail by regulators. However, as one leading market source who wished to remain unnamed says, if you operate a business such as that, Bermuda is probably not the best domicile to be based in.

"What drives Bermuda's gross domestic product is the reinsurance sector, so we support the move to become equivalent under Solvency II. We embrace it and we welcome it," the source says.

"The only people who aren't supportive are the folks who aren't a good fit for our system anyway. If you can't co-operate with a reasonably robust regulatory regime and if you prefer secrecy to transparency, you should look for a different home. If you don't want to play to the world's highest levels of co-operation and transparency, and if you're not willing to co-operate with robust regulation, then you should find a different jurisdiction."

The apparent imminent introduction of Solvency II equivalence could actually prove to be a bonus for the island, the source added. It may not have much of an impact on the island's economy and it will not bring in any new jobs

It is not just Solvency II equivalence which is making the island more attractive to new startups and existing companies considering redomiciling however, as Andrew Barnard, managing director and head of international property catastrophe and retro reinsurance for Markel's global reinsurance division, explained.

After some difficulties regarding immigration to the island – many of which were driven by politics, the current Bermudian government has been proactive work to ensure that some of the leading re/insurance industry executives can make the move to the island.

"The government has finally got to grips with the immigration process," Barnard

"Bermuda's full equivalency under Solvency II is well deserved and a positive for its insurance sector"

Stephen Weinstein, chief compliance officer, general counsel and secretary, RenaissanceRe



directly, but some companies are apparently looking to redomicile their operations to Bermuda. That way, they will be able to take advantage of the financial benefits associated with being on the island as well as the access granted to them via the Solvency II equivalence.

"If we can land just one more global reinsurer on the island, then there will be significant jobs created as a result," says the source. "Rumour has it that, as a result of Solvency II, there will be more companies setting up here."

Qatar Re's chief executive, Gunther Saacke, admitted that Bermuda's expected Solvency II equivalency status was one of the major reasons behind his firm redomiciling to the island at the beginning of December last year.

"The regime's recognition gained over decades of proven reliability stands for uncontested best practices and will support our ability to access and compete throughout the world's markets in a credible manner," said Saacke at the time.

says. "Rather than live in fear that a chosen employee or candidate will not get a permit and having to plan for that eventuality, the system has become a lot smoother and more reliable for international companies. This has brought a lot of stability in terms of planning."

"Bermuda is a desirable place for employees to be transferred to, and Bermuda should foster this view to make sure that the best of companies' talent want to be in Bermuda, where they can train, mentor and help local employees to be the best."

Furthermore, the arrival of the America's Cup in 2017 has ensured that there is a vibrant buzz around Bermuda at the moment, and the arrival of new tourists and high net worth individuals who may one day consider setting up a company in Bermuda will only help to improve the market on the island, says Barnard.

"All of [this] is helped by the BMA being so pro-active and used friendly," Barnard added.

● By Christopher Munro – christopher.munro@euromoneyplc.com

Resilient Bermuda stays on top

Bermuda's role as a global risk hub is as strong as ever, explains Tim Faries, Bermuda Managing Partner, Bermuda Corporate Group Head and Global Head of Insurance at law firm Appleby.

The Bermuda economy is improving, according to government figures: is that a reflection of how international business is performing?

The international business sector, of which financial services is a big part, is an important contributor to Bermuda's economic output. The steady growth in GDP seen in 2015 is attributed to growth in the international business sector: we've seen that in terms of the number of incorporations. In fact, there has been steady growth in the number of formations since 2009/10 - and it was still holding up in 2015.

Insurance and reinsurance is still the biggest contributor in terms of jobs and economic output and that sector has been sustained by activity in the ILS and collateralised reinsurance business. It's become a strong growth area for Bermuda with 75% of ILS transactions completed in 2015 taking place here. Appleby, which has played a significant role in the ILS sector acted on about two-thirds of Bermuda's ILS transactions, including the majority of Bermuda's collateralised reinsurance (or 'cat bond lite') transactions.

What strengths does Bermuda play to in the current re/insurance market environment?

In the case of ILS, it has gained traction partly because of the lack of alternatives available to institutional investors who have found traditional investment products less attractive. The re/insurance market has responded to this demand by developing structures that make the link between capital and risk more transparent, fuelling growth.

Bermuda has a long record for producing innovative, effective solutions. In today's market, people come to Bermuda to create alternative risk structures because there is

the support and strong regulatory oversight they need to succeed.

Qatar Re re-domiciled to Bermuda last year: is there potential for similar moves this year?

Qatar Re re-domiciled to Bermuda for the same reasons as many others. Bermuda is attractive because it has a vibrant reinsurance community. The regulatory environment and impending Solvency II equivalence is another big advantage because it gives easier access to European markets.

It is also a testament to how much effort Bermuda puts into attracting quality business from high growth markets like MENA. Bermuda has a very high profile around the world.

Does Bermuda have a role to play in the development of emerging economies and their risk transfer needs?

There will be others like Qatar Re and in the last few years Bermuda has focussed attention on non-traditional markets like Latin America and MENA. Around one fifth of new registrants in the last year came from Latin America or Canada. I think Bermuda's profile will grow in emerging countries just as it has in Europe and North America for both captives and growing third party reinsurers.

Solvency II equivalence is in sight now: why is it so important to Bermuda?

The difficult work in obtaining equivalence is behind us and we are confident that every issue has been worked through with EIOPA. Equivalence is important because businesses in EU member states wanting to trade with Bermuda re/insurers would face significant barriers without Solvency II equivalence. The ability to passport into Europe maintains the level playing field for Bermuda reinsurers and their competitors in the EU.

But also, Solvency II is emerging as the norm in terms of global insurance regulation and naturally Bermuda's global standing is substantially bolstered by being an early adopter.

On the regulatory front, it is significant that Dr. Marcelo Ramella, Deputy Director of the Bermuda Monetary Authority (BMA), has been appointed Chair of the International Association of Insurance Supervisors' (IAIS) Reinsurance Task Force. It is a reflection of how prominent Bermuda is in the industry and how active it has been in shaping regulation.

Will ILS in its different forms continue to be a growth area for Bermuda, with other centres including London looking for a piece of the action?

The ILS sector will keep growing, albeit possibly at a slower pace, and will broaden out from the property cat focus in time. But insurance centres like London face big challenges beyond implementing the appropriate ILS regulation. It has to be a low cost environment in which to maintain ILS special purpose vehicles and it has to facilitate a fast turnaround. For their part, other small island domiciles simply don't have a big enough insurance market to pose a competitive threat to Bermuda.

Bermuda has been through different stages in its evolution as a risk hub. How would you characterise Bermuda 4.0?

In 2015 we saw numerous reinsurance mergers and acquisitions, resulting in several big players in the market. We will always have dominant players but I think we will see an evolution of 'Bermuda 4.0' insurance companies. These companies will have a smaller footprint in Bermuda than the classic Bermuda cat XL start-ups. They will have a small staff complement and they will rely on technology, with certain back office functions outsourced. This new breed will be nimble and might write traditional covers; they will also incorporate ILS structures in their niche business, instead of looking for an IPO before going mainstream as has been the case in the past. As mentioned, the ILS market, particularly cat bond lite issuances will continue to grow given speed to set up, low cost and continued investor confidence in ILS structures.



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