

FINANCIAL CRISIS FREQUENTLY ASKED QUESTIONS

The Bermuda Monetary Authority has developed this document in an effort to assist the public by addressing points of general concern regarding the global financial crisis, and its impact on Bermuda's financial services sector. We invite the public to forward any additional general queries about this issue to enquiries@bma.bm

a) The Global Financial Crisis and the Economy

1. How will it impact Bermuda?

Individual investors as well as financial firms in Bermuda, whether banks, insurance companies, investment businesses, are being impacted by the crisis mainly with respect to losses in their investment portfolios. These losses obviously impact the value of pension funds, mutual funds and any other investment instruments that are linked to global securities markets. There are also the indirect impacts an economic downturn of this nature has on the broader economy, for example in relation to the tourism sector and job losses in the financial services sector. These types of losses and impacts are being experienced across all sectors of financial markets around the world. Investors are generally being advised to take a long-term view on investments, and retail investors should consult their financial advisors prior to trading in such volatile market conditions.

2. How well is Bermuda's financial services sector dealing with the crisis?

Firms in the financial sector here are putting in place contingency plans to help manage their operations through these challenging conditions, and, realistically, it is to be expected that some will experience further losses. However, Bermuda's financial markets have proved to be resilient overall so far in the face of this unprecedented crisis. The Authority continues its active monitoring of the condition of Bermuda's financial markets, and its intensified supervision of firms most impacted by the crisis.

b) The Strength of Bermuda's Banking Sector

1. How strong are Bermuda's banks?

Bermuda's banks are exceeding the Authority's current capital requirements and remain in a strong cash position. Consequently, the banking sector continues to withstand the financial crisis. Bermuda's banks did not engage in the reckless lending practices associated with sub prime and Bermuda has a much stronger housing market than the US or UK. In addition, the Authority requires Bermuda's banks to hold capital levels that are significantly above minimum international standards. Bermuda's banks are also subject to strict rules that require them to maintain strong liquidity, or cash, positions.



However, the Authority is announcing that as a precautionary measure, to be prepared for potential continued instability in global markets, it is requiring banks to hold an additional capital buffer to withstand a severe economic downturn. The Authority is continuing its close monitoring of the financial condition of the banking sector.

2. Why has the BMA required banks to hold additional capital buffers?

The Authority has required banks to raise additional capital simply as a precautionary measure in light of the continuing global financial crisis and possible losses that may arise within the banking sector here, as elsewhere, in the coming months. The capital buffer will serve to support such losses, and help ensure that all Bermuda's banks still remain well-capitalised and in a stronger position to withstand a severe economic downturn.

3. Is there deposit insurance in Bermuda?

There has up to this point not been the need to establish deposit insurance in Bermuda, given the very conservative and stringent capital requirements that have been placed on all Bermuda's banks for regulatory purposes. These requirements have meant that the banks have traditionally been very well-capitalised and in a strong position to cover risks in what has historically been overall a stable market environment.

However, given the unprecedented global market conditions that continue to impact financial sectors all over the world, the Authority and the Bermuda Government are now considering how best to implement a deposit insurance scheme for Bermuda. Discussions between the Authority, the Government and the banks on the most suitable structure for such a scheme in Bermuda are in progress.

c) My Investments and Pension

1. Are my pension and my investments safe in Bermuda?

All investments carry some degree of risk and most types of investment have fallen in value over the past year. The international nature of Bermuda's economy and financial sector means that local investors cannot be kept immune from global developments, including the sharp decline in equity markets. There are, however, a number of things you can do to ensure your investments are as safe as they can be.

First, make sure your investment provider is licensed by the BMA. This should be clear from their promotional material - an investment provider is required to identify its licensing body in any advertisement it displays - but, if you are unclear, you can refer to the Authority's web-site, where you will find a list of Bermuda licensed entities.

Second, track the performance of your investments regularly. You should be receiving regular statements showing the performance of your investments. If that is not happening, contact your investment provider and ask why. You should also note that investment

firms and pension managers are required to keep those funds separate so they are safe if anything goes wrong, unless the investor has explicitly agreed otherwise and the Authority has accepted that satisfactory alternative arrangements are in place.

Third, review your investment portfolio periodically to ensure that it still meets your investment needs as these may vary over time. Ask yourself if your investments remain in line with your investment appetite - the degree of risk you are prepared to take with your money. If you are uncertain, seek investment advice. And remember that investments that promise a higher-than-normal return invariably carry a higher degree of risk.

2. Should I be selling my investments because of the bad news in the financial markets?

You should review the investments you have and consider whether they still meet your needs or those of your family. If, for example, you are saving for your retirement or for your children's education, you should from time to time look to see if the value of your investments is sufficient to provide the capital sum or income you need to achieve your objectives. If not, you will have some decisions to make about whether you need to save more and whether you can afford to do so. Selling or switching investments may be an option you want to consider to reduce your exposure to risk but it may be advisable to seek advice from your investment adviser before doing so.

3. I've heard about the Madoff and Stanford frauds: do they affect me in Bermuda?

At the moment, nothing has been proven against these two individuals but the information that is available is certainly concerning.

Neither Madoff nor Stanford had any of their companies or funds in Bermuda. We do know, however, that a number of Bermuda companies had business dealings with them and it is likely that some individuals resident in Bermuda will have savings or investments indirectly linked to Madoff or Stanford, perhaps because they invested in an investment fund or took out an insurance policy that in turn placed money with one of the Madoff funds. If you think that you are one of the people that might be affected in this way, contact your investment provider in the first instance to ask for information.

d) The Insurance Industry

1. Is the insurance or reinsurance industry in Bermuda at risk because of the financial crisis?

Bermuda's re/insurance sector overall had limited investment exposure to sub prime at the beginning of the financial crisis. However, the sector is now experiencing, in common with markets worldwide, a degree of losses from their investment portfolios due to overall market conditions. The sector has remained resilient and has so far managed to absorb losses related to the economic downturn.

The Authority continues to monitor closely firms that provide life insurance and pension fund products to consumers to assess the on going specific impact of the crisis on their operations and, by extension, potentially on policyholders. The results of a recently-concluded survey of these firms are being reviewed to assist in identifying where there may be challenges moving forward that may need to be addressed.

e) The Role of the BMA

1. What has the BMA been doing to manage the financial crisis?

The Authority has been closely monitoring market conditions in Bermuda in relation to the global financial crisis over the past 18 months. As a first phase, the Authority took a proactive approach, stepping up monitoring of firms to determine the extent of sub prime exposures in the local market.

This work involved surveys of the banking, insurance and investment sectors being conducted as early as August 2007, followed by stress tests on firms' operations, to assess the impact of the sub prime situation on those markets, as well as increasing on-site inspections to firms most likely to be impacted, as necessary. This has been followed by a sustained period of intensified monitoring of banks, insurance companies and, given the widespread impact on investment portfolios as this crisis has continued, investment businesses. We intend to maintain this combination of specialised market surveys, stress testing, enhanced supervisory monitoring, and addressing isolated incidents of firms specifically challenged by the crisis.

The Authority has also placed added regulatory requirements on companies as deemed necessary on the basis of this close monitoring, including requiring the banks to raise additional capital, as mentioned above. These are precautionary measures, designed to address and mitigate as far as possible on going potential exposures in Bermuda to losses being experienced in the markets globally.

2. Who is in charge of the BMA? The government? The financial firms?

The Authority operates independently from government and financial firms, and is the integrated regulator of the financial services sector in Bermuda. In addition to issuing Bermuda's currency, the Authority regulates, licenses, supervises and inspects financial institutions operating in or from Bermuda. Its responsibilities cover Bermuda's banks, investment businesses, investment funds, fund administrators, insurance companies, money service businesses and trust companies. It also regulates the Bermuda Stock Exchange.

3. Does the BMA take enforcement action against firms?

The Authority does investigate, and will take action against, firms that breach regulations which apply to their business. Under current policy the Authority maintains confidentiality and does not discuss specific cases or actions taken in relation to licensed firms. This policy takes into account the potential disproportional effects public disclosure about such cases could have on the reputations of the jurisdiction or a company, as well as on a firm's operations. However, in light of the move to improve transparency in the Authority's work, it is considering using public sanctions and providing publicity around some enforcement actions. The Authority is currently exploring this option and the strict criteria that would form the basis of such action.

4. What should I do if I want to complain about a firm?

If you believe a firm has breached or violated regulations that apply to their business, you should notify the Authority. The Authority's role is to monitor the affairs of licensed institutions to ensure that they comply with, and do not breach, the legal requirements and regulations that apply to them. In doing this, the Authority also monitors whether those institutions conduct their business prudently, to minimise the risk that clients, potential clients, or creditors may suffer losses as a result of an institution encountering major problems.

Investigating complaints by individuals about claims of unfair treatment by an institution, or other disputes, are non-regulatory matters and are not the responsibility of the BMA. However, given its statutory responsibilities for supervising and regulating institutions, the Authority is always interested to receive information that may be relevant in determining whether an institution is being operated prudently.

Therefore, where an aggrieved customer of a bank or other licensed institution believes their complaint is relevant to the Authority's supervisory responsibilities, they may wish to bring that matter to the BMA's attention. The Authority will review the matter and may investigate it further. If the Authority decides to investigate a licensed institution based on such information, or requires an institution to take particular action, under current policy that process is conducted privately between the BMA and the firm concerned. The Authority does not disclose the status of any investigation or action taken to persons making a complaint or to the general public.