

BERMUDA MONETARY AUTHORITY



REGULATORY

UPDATE AND

NOTICE

FOR THE QUARTER ENDED

SEPTEMBER 2002



BERMUDA MONETARY AUTHORITY

Regulatory Update and Notice

January 2003

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REGULATORY, LEGISLATIVE AND OTHER DEVELOPMENTS

This Notice reports on recent regulatory and other developments at the Bermuda Monetary Authority. Attached are the regular statistical data covering Bermuda dollar money supply, Bermuda banks' balance-sheet analysis, and other financial and company sector information, updated for the quarter ended 30 September 2002.

Regulatory Developments

The past few months have seen important progress in the continuing development of several of Bermuda's financial regulatory regimes. Some of the highlights were:

a) Insurance

The Insurance Amendment Act 2002 came into effect on 14 October 2002. The Act provides the Authority with new powers to obtain information and reports and to require the production of documents from licensed insurers, insurance managers and intermediaries. As such, the Act provides the legal underpinning for the Authority to introduce on-site supervisory review visits to the Class 3 and 4 and Long-Term companies, as previously proposed. The Act also provides for the Authority to publish a Statement of Principles regarding its exercise of the new powers to obtain information and report and to require documents. This Statement has been published and copies are available from the Authority. The Authority has now established a standard programme for the review visits, which is currently being carried forward. The first visits took place during January 2003.

As part of its preparation for these important developments in its supervisory approach, the Authority implemented a restructuring of the Insurance Division in order to improve efficiency through greater focus and specialisation. This has involved organising staff into three separate teams: a Daily Team, dealing with the processing of routine regulatory requests; a Compliance Team, dealing with the on and off-site supervisory process, non-compliant institutions, and the preparation of statistics; and a Policy & Administrative Team, dealing with higher level regulatory and legislative issues, as well as staff training initiatives.

In a further noteworthy development, Jeremy Cox, Supervisor of Insurance, has been invited to join the Reinsurance Technical Committee of the International Association of Insurance Supervisors. The Committee is currently engaged in a number of aspects of international standard-setting for the reinsurance market. The invitation reflects international recognition of Bermuda's prominence in this sector of the insurance market, and the Authority very much welcomes the opportunity to ensure that Bermuda can contribute fully to these important international initiatives.

b) Trust Business

The Authority is currently in the final stages of implementing the Trusts (Regulation of Trust Business) Act 2001, which came into force in January 2002 when existing trust companies were issued with licences under the new legislation. Individuals and partnerships not previously subject to a licensing requirement were given a period within which to apply for a licence. The Trusts (Regulation of Trust Business) Amendment No 2 Act, which came into effect on 13 August 2002 provided for non-licensed persons to be able to continue to operate provided they apply for a licence by 24 January 2003. At the same time, the Trusts (Regulation of Trust Business) Exemption Order 2002 which came into effect in August 2002, specified certain strictly limited exemptions (including in respect of private trust business) from the standard licensing requirement. Existing private trust companies seeking to make use of the exemption were also required to provide certain particulars to the Authority by 9 November 2002. Private trust companies registered or granted a permit after the Exemption Order came into force are required to provide this information within three months of their registration or the grant of their permit.

The Authority has taken steps to alert those potentially affected by the licensing requirement, as well as the wider public, to the implications of the new legislation. At the same time, it has been completing its own preparations for the full implementation of the new Act. These have included the preparation and publication of a Statement of Principles pursuant to section 6 of the Act and a Code of Practice under section 7 of the Act. Both documents were finalised during September 2002, following extensive market consultation. They can be viewed on the Authority's website (www.bma.bm) and copies are available from the Authority's offices. At the same time, the Authority has been finalising details of its on-site and off-



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site supervision of licensees. Details are contained in Information for Prospective Applicants, recently issued by the Authority, copies of which are available in the same way as with the Statement and Code above. Any person who may be in doubt as to his position under the new Act should seek professional legal advice as a matter of urgency and may also wish to make direct contact with the Authority in sufficient time to enable his position to be clarified ahead of the legal deadlines.

c) Investment Business Act

Consultation has continued with the market and other stakeholders on a new Investment Business Bill, intended to replace in its entirety the current Investment Business Act, 1998. The new Act is intended to deal with a number of legal uncertainties which have emerged over interpretation of aspects of the 1998 legislation, to extend the definition of investment business to cover custody and administration of investments, to enhance in certain respects the powers of the regulators to intervene where concerns may arise (including powers to investigate breaches of the Act by non-licensed persons), and to provide for the recognition of investment exchanges such as the Bermuda Stock Exchange under formal self-regulatory arrangements under the Act. It is hoped to introduce the Bill into Parliament shortly.

Legislative developments

Bermuda Monetary Authority Amendment Act 2002

The Act, which came into effect at the end of 2002, introduced some minor technical amendments to the Bermuda Monetary Authority Act. In particular, the effect was to provide for existing regulatory fees payable to the Authority to be set within the framework of the Bermuda Monetary Authority Act, instead of under the Government Fees Act, as has previously been the case. The Act also made an addition to the list of principal objects set for the Authority, to include assisting with the detection and prevention of financial crime. This change reflects what is now international best practice for similar regulatory bodies. However, it does not of itself involve any extension to the Authority's present role, which is governed by the powers and duties given to the Authority under the Act together with the various regulatory statutes.

Companies Amendment Act 2002

As part of the continuing process of 'streamlining' the company incorporation process, the Act introduces a number of technical amendments, notably dealing with the question of restricted business activities. In addition, the Act provides new powers for the Minister of Finance to obtain information from a person in order to assist a foreign regulatory authority with its regulatory functions. The effect is to parallel powers already given to the Authority in the Bermuda Monetary Authority Amendment Act 2001, which apply only in respect of licensed persons. The same safeguards also apply. The Act is due to come into force on 14 February 2003.

Other developments

Numismatic products

The Authority has been particularly active in recent months in carrying forward its ongoing program of numismatic coin issues. July 2002 saw the release of a \$5 silver proof coin with coloured enamelling, in celebration of the 100th anniversary of Cup Match. This coin was the third in the five coin Heritage Series which began with the issue of the Gombey silver proof coin in May 2001, followed by the release of the State House silver proof coin in November 2001. Designs of the 2003 and 2004 coins are pending.

Later, during December 2002, the Authority issued supplies of a commemorative coin celebrating St David's Lighthouse. These are available in silver proof as well as gold proof and have already proved very popular items.

At the same time, the first of two coins celebrating the Golden Jubilee of Her Majesty Queen Elizabeth II – Fanfare of Trumpets – was issued. This forms part of a coordinated series of coins issued by a total of twelve Commonwealth countries. A second coin commemorating the 50th anniversary of the Queen's Coronation is scheduled for release in the latter part of 2003. The issue in June 2003 of a \$50 banknote bearing a commemorative overprint will also mark the occasion.



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BERMUDA MONEY SUPPLY

(BD\$ millions)	2001-Q2	2001-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3
Notes & Coins in Circulation *	76	76	86	79	79	81
Deposit liabilities:						
Banks and Deposit Companies (unconsolidated)	2,468	2,589	2,659	2,744	2,731	2,898
	2,544	2,665	2,745	2,823	2,810	2,979
Less: Cash at Banks and Deposit Companies	23	18	28	19	18	19
Bermuda Money Supply	2,521	2,647	2,717	2,804	2,792	2,960
% Growth on Previous Period	0.28%	5.00%	2.64%	3.20%	-0.43%	6.02%
% Growth Year-on-Year	0.00%	7.25%	10.22%	11.54%	10.75%	11.82%
* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.						

BD\$ DEPOSIT PROFILE – COMBINED BANKS AND DEPOSIT COMPANIES (UNCONSOLIDATED)

(BD\$ millions)	2001-Q2	2001-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3
Deposit Liabilities	2,468	2,589	2,659	2,744	2,731	2,898
Less:						
Loans, Advances and Mortgages	(2,173)	(2,214)	(2,228)	(2,246)	(2,293)	(2,345)
Surplus deposits	295	375	431	498	438	553
Percentage of Deposit Liabilities Lent	88.0%	85.5%	83.8%	81.9%	84.0%	80.9%



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COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION (CONSOLIDATED)

(BDS millions)	2001 - Q2	2001 - Q3	2001 - Q4	2002 - Q1	2002 - Q2	2002 - Q3
Total Foreign Currency Assets	15,522	14,569	15,429	14,979	14,460	14,950
Less: Other Assets	298	269	177	189	183	173
Less: Foreign Currency Loans to Residents *	331	366	444	445	465	551
Net Foreign Currency Assets	14,893	13,934	14,808	14,345	13,812	14,226
Foreign Currency Liabilities	14,248	13,281	14,029	13,468	13,024	13,397
Add: BDS Deposits of Non-Residents *	43	57	56	68	77	83
Net Foreign Currency Liabilities	14,291	13,338	14,085	13,536	13,101	13,480
Net Foreign Currency Position (consolidated)	602	596	723	809	711	746
Totals may not add due to rounding						
* Amended series						



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BALANCE OF PAYMENTS ESTIMATES

(BDS) MILLIONS	1999	2000	2001	2002	2001	2001	2001	2001	2002	2002	2002
				YTD	Q1	Q2	Q3	Q4	Q1	Q2	Q3
CURRENT ACCOUNT											
PAYMENTS											
Merchandise(Imports)	712	719	720	570	183	183	163	191	179	208	183
Shipping & Other Transportation	108	114	113	80	26	31	29	27	27	26	27
Travel	212	216	216	164	32	47	81	56	33	49	82
Investment Income	56	68	69	49	16	19	16	18	17	16	16
Profess. Man. & Tech. Service	77	97	106	85	26	26	27	27	28	28	29
Other Goods Services & Income	220	243	284	236	68	73	69	74	76	83	77
Current Transfers	164	181	203	159	49	50	51	53	52	53	54
	1549	1638	1711	1343	400	429	436	446	412	463	468
RECEIPTS											
Merchandise(Exports)	51	51	36	41	9	9	6	12	12	16	13
Shipping & Other Transportation	20	26	29	17	9	7	8	5	7	5	5
Travel	483	434	350	311	36	131	128	55	40	134	137
Investment Income	208	232	315	138	159	63	44	49	49	64	25
Profess. Man. & Tech. Service	912	967	986	776	228	232	265	261	244	248	284
Other Goods Services & Income	120	123	124	106	33	26	31	34	32	38	36
Current Transfers	15	14	16	14	4	4	4	4	4	5	5
	1809	1847	1856	1403	478	472	486	420	388	510	505
NET BALANCE											
Merchandise (Trade)	(661)	(668)	(684)	(529)	(174)	(174)	(157)	(179)	(167)	(192)	(170)
Shipping & Other Transportation	(88)	(88)	(84)	(63)	(17)	(24)	(21)	(22)	(20)	(21)	(22)
Travel	271	218	134	147	4	84	47	(1)	7	85	55
Investment Income	152	164	246	89	143	44	28	31	32	48	9
Profess. Man. & Tech. Service	835	870	880	691	202	206	238	234	216	220	255
Other Goods Services & Income	(100)	(120)	(160)	(130)	(35)	(47)	(38)	(40)	(44)	(45)	(41)
Current Transfers	(149)	(167)	(187)	(145)	(45)	(46)	(47)	(49)	(48)	(48)	(49)
Current A/C Surplus/Deficit	260	209	145	60	78	43	50	(26)	(24)	47	37
CAPITAL & FINANCIAL ACCOUNT											
CAPITAL ACCOUNT											
FINANCIAL ACCOUNT											
Net Long Term Investment	(173)	(119)	(127)	14	(127)	(1)	2	(1)	(2)	(13)	29
Net Short Term Investment	11	0	70	(31)	37	13	10	10	19	(12)	(38)
of which : Authorised Dealers	33	(1)	67	(37)	30	12	10	15	11	(12)	(36)
: BMA	(22)	1	3	6	7	1	0	(5)	8	0	(2)
Capital & Financial A/C Balance	(162)	(117)	(57)	(16)	(90)	12	12	9	17	(24)	(9)
BALANCING ITEM	(98)	(92)	(88)	(44)	12	(55)	(62)	17	7	(23)	(28)
Totals may not add due to rounding											



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BALANCE OF PAYMENTS COMMENTARY

Introduction

The balance of payments figures are, to a large extent, based on estimated and historical data; they should therefore be interpreted with a suitable degree of caution. The **merchandise (imports)** payments figures for the first two quarters of 2002 have been revised by the Government Statistics Department, which notes that these figures remain subject to further revision. The estimates for **professional, managerial and technical services** receipts for the first two quarters of 2002 have been revised in light of indications that the contribution from international business has increased more strongly during 2002 than previously estimated. Certain corrections to previously submitted bank data have resulted in amendments to published capital and financial account figures for 2000-2002.

Current Account

Provisional estimates for the third quarter of 2002 recorded a surplus on **current account** of \$37 million, down from the level seen in the corresponding quarter in the previous year.

- **Payments**
Payments in the third quarter increased by \$32 million compared to the third quarter of 2001, mainly as a result of higher imports.
- **Receipts**
Receipts in the third quarter of 2002 are estimated to have increased by \$19 million compared to the third quarter of 2001.

Capital and Financial Account

The **capital and financial account**, which comprises **capital transfers**, **long term investment** and **short term investment**, recorded an estimated net outflow of \$9 million in the third quarter of 2002 comprising: -

- **net long term investment** inflow of \$29 million; and
- **net short term investment** outflow of \$38 million, representing an increase in the external holdings of authorised dealers and of the Bermuda Monetary Authority of \$36 million and \$2 million respectively.

Note

Where Bermudian exempted companies do not carry on business in Bermuda, their financial flows (other than direct purchases of goods and services from, and their capital account transactions with, Bermuda residents) are excluded from these estimates.



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COMPANIES PARTNERSHIPS AND PERMITS STATISTICS

APPLICATIONS APPROVED SUMMARY

	2001-Q2	2001-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	321	261	313	283	232	256
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	23	19	26	7	18	23
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	5	0	1	3	0	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	15	5	20	11	22	6
Unit Trusts	2	41	8	14	1	10
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	6	3	4	4	3	4
Unlimited Liability Companies	0	0	0	0	0	1
Local Companies	57	44	43	50	54	39
Total Applications Approved	429	376	415	372	330	339

Statistics for 2001-Q4 and 2002-Q2 have been revised to reflect amended data.
Detailed statistics may be accessed on the Authority's website www.bma.bm



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ADDITIONS TO THE INSURANCE REGISTER

	2002- Q1	2002- Q2	2002- Q3
Class 1 Single-parent captive insuring only risks of its owners or affiliates of the owners	5	8	9
Class 2 (a) a multi-owner captive insuring risks of its owners or affiliates of the owners; (b) a single-parent and multi-owner captive: (i) insuring the risks related to or arising out of the business or operations of the owners and affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks	6	4	4
Class 3 Insurers not included in Class 1, 2 or 4, such as i) Reinsurers writing third party business; ii) Insurers writing direct policies with third party individuals; iii) Single parent, group, association, or joint venture captives where more than 20% of their net premiums written arises from risks which are unrelated to the business of the owners; iv) Finite reinsurers and rent-a-captives	7	5	4
Class 4 Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk	0	1	1
Long-Term Insurers Insurers writing long-term (or life) business	1	0	1
Composites Insurers writing combination of long-term (or life) business and Class 1, 2, 3 or 4 business	2	0	0
Total additions during quarter	21	18	19



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COLLECTIVE INVESTMENT SCHEMES STATISTICS

	2001-Q2	2001-Q3	2001- Q4	2002-Q1	2002-Q2	2002-Q3
Mutual Funds	622	656	675	666	707	741
Sub-Funds	333	331	377	442	450	459
Umbrella Funds	54	49	49	39	48	50
Sub-Funds	133	127	127	125	124	124
Feeder-Funds	72	71	73	85	80	90
Total Mutual Funds	1,214	1,234	1,301	1,357	1,409	1,464
Unit Trusts	81	82	83	95	96	96
Umbrella Trusts	10	9	9	6	6	7
Sub-Trusts	19	24	27	19	19	22
Feeder Trusts	1	1	1	0	0	1
Total Unit Trusts	111	116	120	120	121	126
TOTAL	1,325	1,350	1,421	1,477	1,530	1,590
TOTAL NET ASSET VALUE (IN BILLIONS)	\$47.16	\$49.45	\$55.99	\$60.28	\$64.16	\$61.26