

BERMUDA MONETARY AUTHORITY



REGULATORY

UPDATE AND

NOTICE

FOR THE QUARTER ENDED

DECEMBER 2002



BERMUDA MONETARY AUTHORITY

Regulatory Update and Notice

April 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 31 December 2002.

Regulatory Developments

a) Insurance

2002 saw continued strong development of the insurance sector in Bermuda with a total of 96 new companies joining the Register during the year. While this is lower than the exceptional number of additions to the Register in 2001, interest remains at historically high levels, and slightly ahead of the outturn for 2000.

b) Trust business

Following the coming into full effect of the Trusts (Regulation of Trust Business) Act 2001, the Authority is currently considering a number of applications from companies for unlimited trust licences, as well as from individuals for limited trust licences. Meanwhile the Authority is carrying forward the implementation of its new supervisory regimes under the Act with a view to assessing compliance with the requirements of the Act and of the Code of Practice. Further discussions have been scheduled with the industry to clarify certain aspects of the new regulatory approach.

c) Investment business

Following completion of extensive market consultations on a new Investment Business Bill, intended to replace the Investment Business Act 1998, a final version is being prepared and will be laid before Parliament shortly. The new Act is not expected to result in any significant change in the number of firms already subject to the licensing requirement. At the same time, no major changes in the Authority's current regulatory approach are intended.

d) Collective Investment Schemes

The Authority has been carrying forward in recent months a project aimed at enhancing compliance of Schemes and their service providers with the notification and other requirements under the Classification Regulations. As a result of this project, various changes have been made to the Authority's classification procedures to ensure that designated service providers have a complete understanding of the obligations undertaken vis-à-vis the Authority. As part of this review, the opportunity has also been taken to make a full review of the completeness and accuracy of data held by the Authority on Classified Schemes. The results are reflected in the most recent sectoral data in the attached Statistical Annexe, involving the removal of a number of Schemes that are now dormant or not classified, combined with the inclusion of additional net asset data from certain Schemes which had not previously been included within the published numbers.

e) Companies Amendment Act 2002

The new 'streamlining' provisions came into effect, as intended, on 14 February 2003. The Ministry of Finance and the Authority held extensive prior discussions with industry participants ahead of the implementation date, and revised guidance notes on incorporation matters were circulated by the Ministry. As a result, implementation has proceeded smoothly, with no significant difficulties arising.



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BERMUDA MONEY SUPPLY

(BD\$ millions)	2001-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3	2002-Q4
Notes & Coins in Circulation *	76	86	79	79	81	90
Deposit liabilities:						
Banks and Deposit Companies (unconsolidated)	2,589	2,659	2,744	2,731	2,898	2,924
	2,665	2,745	2,823	2,810	2,979	3,014
Less: Cash at Banks and Deposit Companies	18	28	19	18	19	29
Bermuda Money Supply	2,647	2,717	2,804	2,792	2,960	2,985
% Growth on Previous Period	5.00%	2.64%	3.20%	-0.43%	6.02%	0.84%
% Growth Year-on-Year	7.25%	10.22%	11.54%	10.75%	11.82%	9.86%
* 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-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3	2002-Q4
Deposit Liabilities	2,589	2,659	2,744	2,731	2,898	2,924
Less:						
Loans, Advances and Mortgages	(2,214)	(2,228)	(2,246)	(2,293)	(2,345)	(2,392)
Surplus deposits	375	431	498	438	553	532
Percentage of Deposit Liabilities Lent	85.5%	83.8%	81.9%	84.0%	80.9%	81.8%



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**COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION
(CONSOLIDATED)**

(BDS millions)	2001 - Q3	2001 - Q4	2002 - Q1	2002 - Q2	2002 - Q3	2002 - Q4
Total Foreign Currency Assets	14,569	15,429	14,979	14,460	14,950	15,983
Less: Other Assets	269	177	189	183	173	164
Less: Foreign Currency Loans to Residents	366	444	445	465	551	585
Net Foreign Currency Assets	13,934	14,808	14,345	13,812	14,226	15,234
Foreign Currency Liabilities	13,281	14,029	13,468	13,024	13,397	14,436
Add: BDS Deposits of Non-Residents	57	56	68	77	83	88
Net Foreign Currency Liabilities	13,338	14,085	13,536	13,101	13,480	14,524
Net Foreign Currency Position (consolidated)	596	723	809	711	746	710
Totals may not add due to rounding						



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BALANCE OF PAYMENTS ESTIMATES

(BDS) MILLIONS	1999	2000	2001	2002	2001	2001	2001	2001	2002	2002	2002	2002
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
CURRENT ACCOUNT												
PAYMENTS												
Merchandise(Imports)	712	719	720	747	183	183	163	191	179	208	183	177
Shipping & Other Transportation	108	114	113	107	26	31	29	27	27	26	27	27
Travel	212	216	216	221	32	47	81	56	33	49	82	57
Investment Income	56	68	69	67	16	19	16	18	17	16	16	18
Profess. Man. & Tech. Service	77	97	106	115	26	26	27	27	28	28	29	30
Other Goods Services & Income	220	243	284	305	68	73	69	74	76	83	77	69
Current Transfers	164	181	203	214	49	50	51	53	52	53	54	55
	1549	1638	1711	1776	400	429	436	446	412	463	468	433
RECEIPTS												
Merchandise(Exports)	51	51	36	55	9	9	6	12	12	16	13	14
Shipping & Other Transportation	20	26	29	21	9	7	8	5	7	5	5	4
Travel	477	421	350	379	36	131	128	55	40	134	137	68
Investment Income	208	232	315	172	159	63	44	49	49	64	25	34
Profess. Man. & Tech. Service	912	967	986	1055	228	232	265	261	244	248	284	279
Other Goods Services & Income	120	123	124	142	33	26	31	34	32	38	36	36
Current Transfers	15	14	16	19	4	4	4	4	4	5	5	5
	1803	1834	1856	1843	478	472	486	420	388	510	505	440
NET BALANCE												
Merchandise (Trade)	(661)	(668)	(684)	(692)	(174)	(174)	(157)	(179)	(167)	(192)	(170)	(163)
Shipping & Other Transportation	(88)	(88)	(84)	(86)	(17)	(24)	(21)	(22)	(20)	(21)	(22)	(23)
Travel	265	205	134	158	4	84	47	(1)	7	85	55	11
Investment Income	152	164	246	105	143	44	28	31	32	48	9	16
Profess. Man. & Tech. Service	835	870	880	940	202	206	238	234	216	220	255	249
Other Goods Services & Income	(100)	(120)	(160)	(163)	(35)	(47)	(38)	(40)	(44)	(45)	(41)	(33)
Current Transfers	(149)	(167)	(187)	(195)	(45)	(46)	(47)	(49)	(48)	(48)	(49)	(50)
Current A/C Surplus/Deficit	254	196	145	67	78	43	50	(26)	(24)	47	37	7
CAPITAL & FINANCIAL ACCOUNT												
CAPITAL ACCOUNT												
	0	2	0	1	0	0	0	0	0	1	0	0
FINANCIAL ACCOUNT												
Net Long Term Investment	(173)	(119)	(107)	34	(120)	(1)	5	9	(2)	(13)	29	20
Net Short Term Investment	11	0	(48)	(83)	25	(28)	(30)	(15)	19	(42)	(46)	(14)
of which : Authorised Dealers	33	(1)	(51)	(79)	18	(29)	(30)	(10)	11	(42)	(44)	(4)
: BMA	(22)	1	3	(4)	7	1	0	(5)	8	0	(2)	(10)
Capital & Financial A/C Balance	(162)	(117)	(155)	(48)	(95)	(29)	(25)	(6)	17	(54)	(17)	6
BALANCING ITEM	(92)	(79)	10	(19)	17	(14)	(25)	32	7	7	(20)	(13)
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. Minor amendments to statistics for **travel** receipts in 1999 and 2000 have been included, reflecting adjustments made by the Government Statistics Department to past data. Similarly, estimates for **net short-term investment** in 2000 and for both **net long-term** and **net short-term investment** in 2001 have been amended to reflect recently revised data. Estimates for recent **merchandise (imports)** are based on preliminary data and remain subject to revision.

Current Account

Provisional estimates for the fourth quarter of 2002 recorded a surplus on **current account** of \$7 million, representing some improvement over the very poor final quarter of 2001 when a small current account deficit was seen. Overall, the current account surplus for 2002 as a whole remained significantly below the levels seen in recent years.

- **Payments**
Payments in the fourth quarter fell by some 3% from the level recorded in the corresponding quarter of 2001, reflecting notably a decline in merchandise imports.
- **Receipts**
Receipts in the fourth quarter are estimated to have increased by \$20 million (4.8%) over the final quarter of 2001, primarily as a result of an improvement in the travel account and continuing growth in professional, managerial and technical services.

Capital and Financial Account

The **capital and financial account**, which comprises **capital transfers**, **long term investment** and **short term investment**, recorded an estimated net inflow of \$6 million in the fourth quarter of 2002 comprising: -

- **net long term investment** inflow of \$20 million; and
- **net short term investment** outflow of \$14 million, representing increases in the external holdings of authorised dealers and of the Bermuda Monetary Authority respectively of \$4 million and \$10 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-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3	2002-Q4
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	261	313	283	232	256	274
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	19	26	7	18	23	15
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	1	3	0	0	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	5	20	11	22	6	16
Unit Trusts	41	8	14	1	10	6
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	3	4	4	3	4	21
Unlimited Liability Companies	3	0	0	0	1	1
Local Companies	44	43	50	54	39	51
Total Applications Approved	376	415	372	330	339	384

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 *	2002-Q4
Class 1 Single-parent captive insuring only risks of its owners or affiliates of the owners	5	8	9	13
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	3
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	6	4	17
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	1
Long-Term Insurers Insurers writing long-term (or life) business	1	0	1	2
Composites Insurers writing combination of long-term (or life) business and Class 1, 2, 3 or 4 business	2	0	1	0
Total additions during quarter	21	19	20	36
* revised data				



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COLLECTIVE INVESTMENT SCHEMES STATISTICS

	2001-Q3	2001-Q4	2002-Q1	2002-Q2	2002-Q3	2002-Q4
Mutual Funds	656	675	666	707	741	688
Sub-Funds	331	377	442	450	459	324
Umbrella Funds	49	49	39	48	50	50
Sub-Funds	127	127	125	124	124	157
Feeder-Funds	71	73	85	80	90	75
Total Mutual Funds	1,234	1,301	1,357	1,409	1,464	1,294
Unit Trusts	82	83	95	96	96	76
Umbrella Trusts	9	9	6	6	7	21
Sub-Trusts	24	27	19	19	22	33
Feeder Trusts	1	1	0	0	1	2
Total Unit Trusts	116	120	120	121	126	132
TOTAL	1,350	1,421	1,477	1,530	1,590	1,426
TOTAL NET ASSET VALUE (IN BILLIONS)	\$49.45	\$55.99	\$60.28	\$64.16	\$61.26	\$68.10

- As noted earlier, following a review of compliance by schemes and their service providers, figures for the most recent quarter have been adjusted to remove a number of schemes that are now dormant or not classified.
- Data for the most recent quarter include NAVs for a number of schemes that had not previously been included within the published aggregate value.