



## Regulatory Update April 2011

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## Preface

This bulletin reports on recent activities at the Bermuda Monetary Authority (“the Authority”) and recent developments affecting the financial sector, as well as the community generally. Attached to it 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 31st December 2010.

The Regulatory Update is published in print and electronic formats. The electronic version is available on the Authority’s website [www.bma.bm](http://www.bma.bm) and can be downloaded as a PDF file. If you wish to receive an email notice when the electronic version is available, you may sign-up to our e-subscriptions service by emailing your request to [enquiries@bma.bm](mailto:enquiries@bma.bm). If you currently receive the print version and would like to receive the electronic version instead, please indicate this in your request.

# Regulatory and Legislative Developments

## 1. BANKING

### Revised Liquidity Policy Implemented

Following a period of industry consultation the Authority published its revised liquidity policy paper, "Principles for Sound Liquidity Risk Management and Supervision" in December 2010. In early 2011, the Authority wrote to all Bermuda's banks requiring them to complete a self-assessment in line with the principles outlined in the new policy. The Authority is currently reviewing the banks' responses and will incorporate any emerging issues or gaps into its supervisory programme for Bermuda's banks during the course of 2011.

## 2. INVESTMENT FUNDS

### Investment Funds Amendment Act 2010

The Investment Funds Act 2006 (IFA) was amended at the end of 2010. The amendments incorporate into the IFA a number of provisions already in force under existing regulatory legislation for Bermuda's banks, trust companies and investment providers. These include requiring fund administrators to appoint at least two persons to direct the business, and requiring shareholder controllers to notify the Authority of new or increased control.

The IFA Amendment Act also provides the Authority with expanded supervisory powers, including the power to object to shareholder controllers. Where the Authority issues an objection to a person becoming a shareholder controller or increasing their shareholding in a fund administrator, such person may appeal the objection to an appeals tribunal.

## 3. INSURANCE

### Bermuda Insurance Market Retains Resilience

Statistics recently released by the Authority on the Bermuda insurance market showed that the sector continued to record significant results, despite the prolonged soft market and global economic recession. For the reporting period ending December 2009\* Bermuda insurers recorded an increase in aggregate

total assets of \$496 billion, as compared to the \$472.9 billion achieved the previous year. Total gross premiums written remained strong at \$119.7 billion, as compared to the previous year's total of \$123.5 billion. The captive sector wrote \$32.6 billion in gross premiums, a year-on-year increase of 66% over the \$19.6 billion recorded for the prior year. This increase can be attributed primarily to significantly higher premiums being written by particular entities in the sector, as well as the Authority reclassifying a number of companies within the market to more accurately reflect their risk profiles.

With respect to registrations, a total of 36 new (re)insurers were registered during the period, as compared to 38 insurers approved for a licence in 2009. Most of the new market entrants for 2010 were a combination of captive and commercial insurers within the Class 3, 3A and 3B sectors. The companies cover various lines of business, including property and catastrophe and professional liability. There were also encouraging signs of growth in the formation of Special Purpose Insurers. The greatest proportion of business came from the US during the year, with respect to both the captive and commercial markets.

### First Phase of Solvency II Assessment Underway

The Authority has entered into the first phase of the equivalency assessment of its insurance framework under Europe's Solvency II Directive. This phase involved providing a detailed response on 31st January to a three-part questionnaire issued by CEIOPS (Committee of European Insurance and Occupational Pensions, now known as the European Insurance and Occupational Pensions Authority (EIOPA)), the body assigned to conduct assessments of third-countries' (non-European) frameworks on behalf of the European Commission. The Authority responded in detail to questions concerning Bermuda's legislative framework, policy framework and implementation of the Authority's enhanced supervisory regime. The questionnaire included reinsurance, solo and group solvency and group supervision. The next phase of the assessment will involve an on-site review of the enhanced framework. The Authority anticipates this phase of the assessment to occur mid-2011.

*\*Underwriting results are compiled from Statutory Financial Returns filed by (re)insurers with the Authority. Due to staggered timing of submissions, receipt of year-end filings for 2010 is in process. At this time, total year-end results are available for 2009.*

## 4. ANTI-MONEY LAUNDERING

### **2011 Anti-Money Laundering / Anti-Terrorism Financing (AML/ATF) On-site Programme Commences**

The Authority's AML/ATF on-site programme is in progress. The focus of the programme for this year is on institutions with trust or investment business licences. To date four reviews have been completed.

### **AML/ATF Workshop Series Continues**

The industry awareness sessions that the Authority initiated in 2010 have continued into this year. The workshops, which are targeted to the jurisdiction's various financial industry sectors, are designed to assist firms with understanding their legal obligations under Bermuda's enhanced anti-money laundering / anti-terrorism financing regime. The Authority is planning to conduct a total of eight sessions in 2011. Two sessions were held during the first quarter, covering banking and trust company business.

A total of 193 participants attended the four sessions held in 2010, which were targeted to the fund administration, investment business and trust business sectors.

# International Outlook

## **IAIS Triannual Meetings**

The Authority participated in the International Association of Insurance Supervisors (IAIS) Triannual Meetings held in Basel, Switzerland on 16th -18th February.

During the meetings the Authority chaired the IAIS Reinsurance Transparency Group meeting. The Authority contributed to the Technical Committee's consideration of the Insurance Core Principles; the Financial Stability Committee's consideration of macroprudential surveillance and supervisory issues for the insurance sector; and an observer hearing on macroprudential issues. The Authority will participate in a newly-formed working group on macroprudential policy and surveillance during 2011.

# Market Analysis and Statistics

## 1. BERMUDA MONEY SUPPLY

The Bermuda dollar money supply contracted by 4.7% over the year. The decline was almost wholly due to a reduction in BD\$ deposits held by the banks. Notes and coins in circulation, which was a very small component of the money supply, fell by 7.3% over the year.

### Bermuda Money Supply

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Notes & Coins in Circulation*	127	122	134	127	137	123
Deposit Liabilities	3,660	3,706	3,719	3,748	3,840	3,858
<b>Total</b>	<b>3,787</b>	<b>3,828</b>	<b>3,853</b>	<b>3,875</b>	<b>3,977</b>	<b>3,981</b>
Less: Cash at Banks**	65	60	73	61	70	60
BD\$ Money Supply	3,722	3,768	3,780	3,814	3,907	3,921
% Growth on Previous Period	-1.22%	-0.32%	-0.89%	-2.37%	-0.36%	0.98%
<b>Growth Year on Year</b>	<b>-4.73%</b>	<b>-3.90%</b>	<b>-2.64%</b>	<b>-1.44%</b>	<b>0.18%</b>	<b>0.43%</b>

Totals may not add due to rounding.

\* 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.

\*\* Includes deposit companies as well as banks.

## 2. DOMESTIC AND FOREIGN CURRENCY POSITION

### BD\$ Deposit and Loan Profile – Combined Banks and Deposit Companies (Unconsolidated)

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Deposit Liabilities	3,660	3,706	3,719	3,748	3,840	3,858
Less:						
Loans, Advances and Mortgages	(5,165)	(5,146)	(5,390)	(5,214)	(5,148)	(5,205)
Deposits Less Loans	(1,505)	(1,440)	(1,671)	(1,466)	(1,308)	(1,347)
<b>Percentage of Deposit Liabilities Loaned</b>	<b>141.1%</b>	<b>138.9%</b>	<b>144.9%</b>	<b>139.1%</b>	<b>134.1%</b>	<b>134.9%</b>

Totals may not add due to rounding.

Following recent amalgamations within the sector, separate data for deposit companies are no longer published.

The banking sector reported a year-on-year increase in the proportion of BD\$ lending relative to BD\$ deposit liabilities, with the deficit increasing from 34.1% to 41.1% during the year.

BD\$ loans and advances increased by 0.3% year-on-year, while BD\$ customer deposits declined by 4.7%. The shortfall in BD\$ deposits over BD\$ loans and advances is financed by foreign currency-denominated customer deposits, which are predominantly in US dollars. The Bermuda dollar is pegged to the US dollar. Taking into account other BD\$ liabilities, in particular the banks' capital, there are more than sufficient BD\$ liabilities to fund the sector's BD\$ assets.

### Foreign Currency Position - Combined Banks and Deposit Companies (Consolidated)

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Total Foreign Currency Assets	17,693	16,616	16,861	16,250	15,960	15,575
Less: Other Assets	428	437	433	386	478	501
Less: Foreign Currency Loans to Residents	1,013	1,052	1,219	1,067	1,172	1,128
Net Foreign Currency Assets	16,251	15,127	15,209	14,797	14,310	13,947
Foreign Currency Liabilities	16,232	15,163	15,749	14,964	14,940	14,262
Add: BD\$ Deposits of Non-Residents	185	192	195	189	176	204
Net Foreign Currency Liabilities	16,418	15,355	15,944	15,153	15,116	14,466
<b>Net Foreign Currency Position (Consolidated)</b>	<b>(166)</b>	<b>(228)</b>	<b>(735)</b>	<b>(356)</b>	<b>(807)</b>	<b>(519)</b>

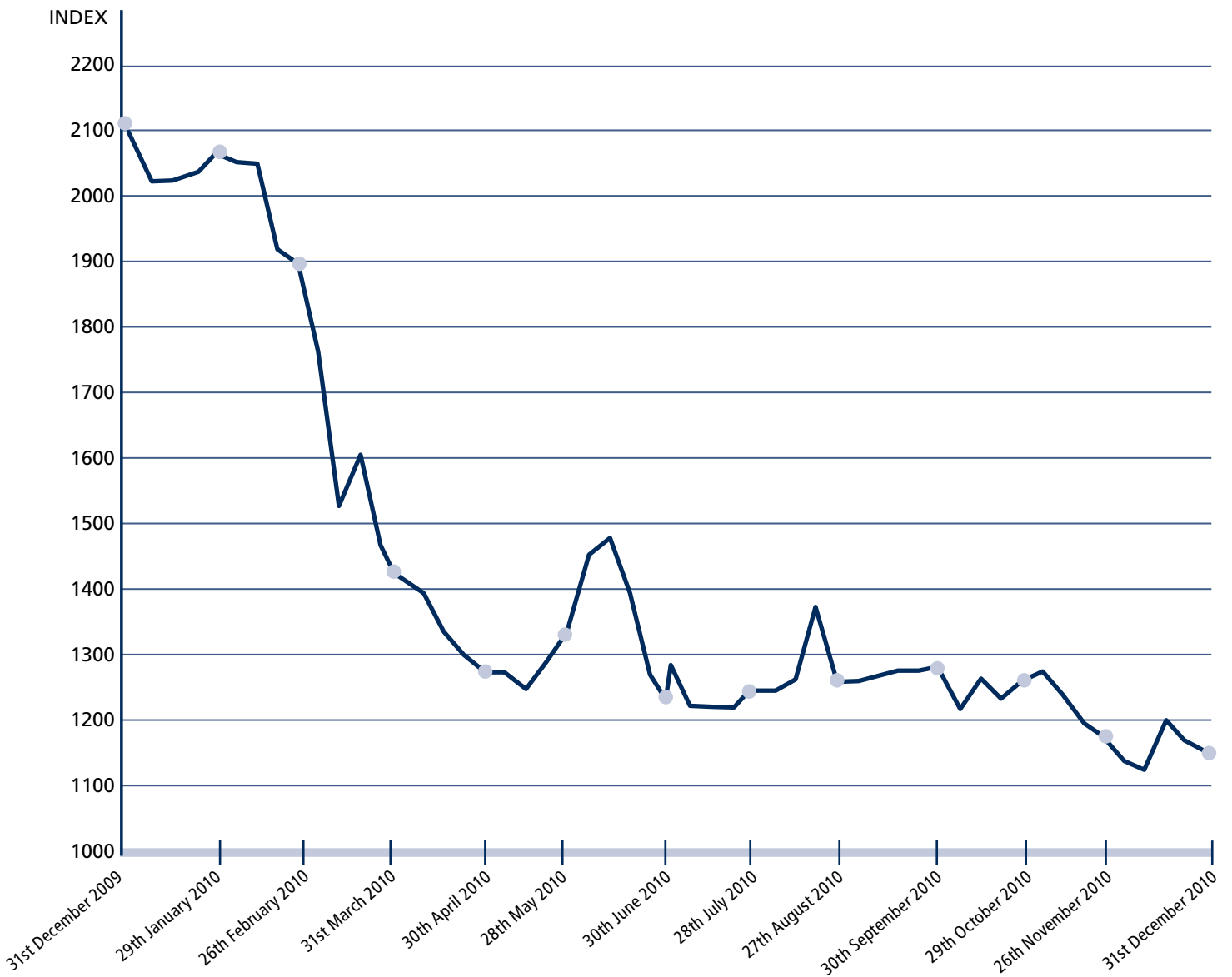
Totals may not add due to rounding.

Net foreign currency assets grew by 7.4% in the fourth quarter and by 13.6% over a year earlier. Net foreign currency liabilities were up by 6.9% and 8.6% respectively over the same periods. As a result, the net foreign currency deficit declined by \$62 million (27.2%) in the fourth quarter and \$641 million (79.4%) over the year.

### 3. BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX as at 31st December 2010 (excluding fund listings) stood at over \$319 billion, down approximately \$36 billion during the quarter, of which approximately \$1.4 billion represented the domestic market (see chart below).

Total trading volume in 2010 was 64 million shares with a corresponding value of \$122 million, which compares with figures of 5.7 million shares and \$50.9 million in 2009. The Royal Gazette /BSX index closed the year at 1149.49, 45% lower than a year earlier. The rise in trading volume and decline in the index reflected the issue of a large number of new shares by a local company which accounts for a substantial portion of the BSX market capitalisation.



Source: Bermuda Stock Exchange

## 4. BANKING

Total assets increased by 4.9% during the quarter from \$22.3 billion to \$23.4 billion. The increase was prompted by the 5.4% growth rate in deposit liabilities, which primarily reflected a 12.1% increase in US currency-denominated deposit liabilities.

After having declined by 3.1% in Q3, cash and deposits with other banks rose by 11.9% during the quarter, while total loans and advances rose by 2.5%. Total investments rose by 2.1% but declined 1.1% year-on-year.

Customer deposit liabilities grew by 5.4% from \$18.6 billion in Q3 to \$19.6 billion in Q4 2010. The main change was an 11.7% increase in demand deposits. There were marginal increases in savings and time deposits of 0.5% and 2.0% respectively.

Shareholders' equity for the sector declined marginally by 0.6% or \$19.4 million over the quarter.

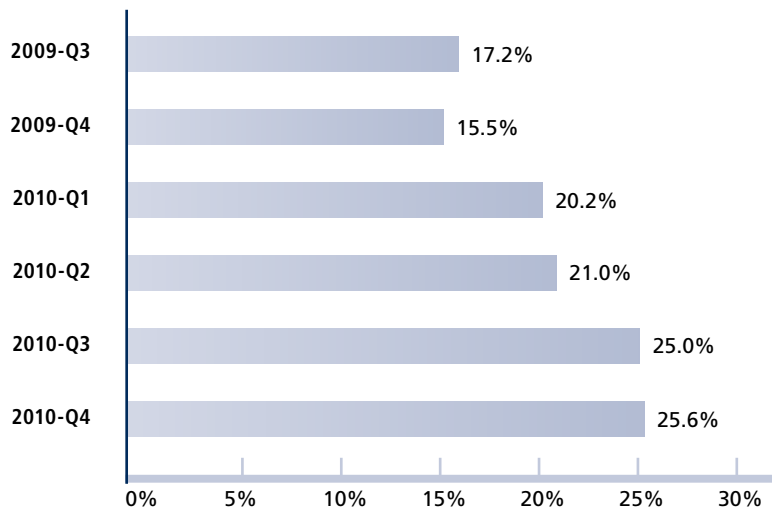
### Banking Sector Assets and Deposits

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Total Assets (\$ millions)	23,369	22,275	22,779	21,933	21,627	21,284
Quarterly Change (%)	4.9	-2.2	3.9	1.4	1.6	-3.0
Total Deposits (\$ millions)	19,631	18,632	19,124	18,435	18,462	17,823
Quarterly Change (%)	5.4	-2.6	3.7	-0.1	3.6	-2.8

## Regulatory Capital to Risk Weighted Assets

The aggregate risk asset ratio for the sector was 25.6% in Q4 2010, up from 25.0% in Q3.

The table below shows the movement in the risk asset ratio.



## Combined Balance Sheet of Bermuda Banks and Deposit Companies (Consolidated)

(BD\$ millions)	2010-Q4			2010-Q3			2010-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
<b>Assets</b>									
Cash	88	47	41	80	40	39	91	52	38
Deposits	7,202	57	7,145	6,433	53	6,380	6,633	39	6,594
Investments	6,386	37	6,350	6,256	28	6,228	6,240	44	6,196
Loans & Advances	8,631	5,027	3,604	8,423	5,005	3,418	8,730	5,244	3,486
Premises & Equipment	505	380	125	512	399	113	507	394	114
Other Assets	557	129	428	572	135	437	578	146	433
<b>Total Assets</b>	<b>23,369</b>	<b>5,676</b>	<b>17,693</b>	<b>22,275</b>	<b>5,659</b>	<b>16,616</b>	<b>22,779</b>	<b>5,919</b>	<b>16,861</b>
<b>Liabilities</b>									
Demand Deposits	8,127	821	7,306	7,279	842	6,437	8,036	857	7,178
Savings	4,813	1,442	3,371	4,792	1,434	3,357	4,580	1,433	3,147
Time Deposits	6,690	1,335	5,355	6,561	1,367	5,194	6,509	1,369	5,140
<b>Sub Total - Deposits</b>	<b>19,631</b>	<b>3,599</b>	<b>16,032</b>	<b>18,632</b>	<b>3,644</b>	<b>14,988</b>	<b>19,124</b>	<b>3,660</b>	<b>15,465</b>
Other Liabilities	547	347	200	432	257	175	534	249	285
<b>Sub Total - Liabilities</b>	<b>20,178</b>	<b>3,946</b>	<b>16,232</b>	<b>19,064</b>	<b>3,901</b>	<b>15,163</b>	<b>19,658</b>	<b>3,909</b>	<b>15,749</b>
Equity & Subordinated Debt	3,191	2,109	1,082	3,211	2,065	1,146	3,121	2,105	1,017
<b>Total Liabilities and Capital</b>	<b>23,369</b>	<b>6,055</b>	<b>17,314</b>	<b>22,275</b>	<b>5,966</b>	<b>16,308</b>	<b>22,779</b>	<b>6,013</b>	<b>16,766</b>

(BD\$ millions)	2010-Q1			2009-Q4			2009-Q3*		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
<b>Assets</b>									
Cash	80	46	34	89	56	33	83	42	41
Deposits	6,289	37	6,252	5,651	60	5,591	5,183	70	5,113
Investments	6,131	24	6,106	6,457	43	6,413	6,597	45	6,552
Loans & Advances	8,422	5,063	3,358	8,341	5,009	3,332	8,307	5,051	3,256
Premises & Equipment	484	371	113	477	364	113	487	375	112
Other Assets	527	142	386	611	133	478	626	125	501
<b>Total Assets</b>	<b>21,933</b>	<b>5,683</b>	<b>16,250</b>	<b>21,627</b>	<b>5,666</b>	<b>15,960</b>	<b>21,284</b>	<b>5,708</b>	<b>15,575</b>
<b>Liabilities</b>									
Demand Deposits	7,761	878	6,883	8,110	866	7,244	7,643	896	6,746
Savings	4,750	1,445	3,304	4,461	1,445	3,017	4,104	1,430	2,674
Time Deposits	5,925	1,399	4,527	5,891	1,472	4,419	6,076	1,479	4,596
<b>Sub Total - Deposits</b>	<b>18,435</b>	<b>3,722</b>	<b>14,714</b>	<b>18,462</b>	<b>3,783</b>	<b>14,679</b>	<b>17,823</b>	<b>3,806</b>	<b>14,017</b>
Other Liabilities	530	279	251	570	309	261	616	371	245
<b>Sub Total - Liabilities</b>	<b>18,965</b>	<b>4,001</b>	<b>14,964</b>	<b>19,032</b>	<b>4,092</b>	<b>14,940</b>	<b>18,439</b>	<b>4,177</b>	<b>14,262</b>
Equity & Subordinated Debt	2,967	1,639	1,328	2,594	1,705	889	2,845	1,886	959
<b>Total Liabilities and Capital</b>	<b>21,933</b>	<b>5,640</b>	<b>16,292</b>	<b>21,627</b>	<b>5,798</b>	<b>15,829</b>	<b>21,284</b>	<b>6,063</b>	<b>15,221</b>

Totals may not add due to rounding.

\* Restated based on submissions from the banks.

## 5. INVESTMENT FUNDS

The total net asset value of Bermuda funds increased by \$2.85 billion or 1.6% in the fourth quarter. The total number of funds changed little over the quarter.

In line with general trends in the global fund market, the end of 2010 was one of increasing net asset value in Bermuda's fund sector. Compared with a year earlier, the total net asset value for 2010 was \$178.44 billion, up by \$31.14 billion, or 21.14%.

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Mutual Funds	657	656	661	654	662	697
Umbrella Funds	58	59	64	67	71	72
Sub-Funds	142	157	172	169	175	203
Segregated Account Companies	76	78	79	81	84	86
Segregated Accounts	248	215	229	273	317	343
<b>Total</b>	<b>1,181</b>	<b>1,165</b>	<b>1,205</b>	<b>1,244</b>	<b>1,309</b>	<b>1,401</b>
Unit Trusts	40	43	39	42	44	53
Umbrella Trusts	69	102	101	99	94	108
Sub-Trusts	150	166	175	174	25	201
<b>Total</b>	<b>259</b>	<b>311</b>	<b>315</b>	<b>315</b>	<b>163</b>	<b>362</b>
<b>Total Portfolios</b>	<b>1,440</b>	<b>1,476</b>	<b>1,520</b>	<b>1,559</b>	<b>1,472</b>	<b>1,763</b>
<b>Total Number of Funds</b>	<b>900</b>	<b>938</b>	<b>944</b>	<b>943</b>	<b>955</b>	<b>1,016</b>
<b>Total Net Asset Value (In billions)</b>	<b>\$178.44</b>	<b>\$175.59</b>	<b>\$180.35</b>	<b>\$174.38</b>	<b>\$147.30</b>	<b>\$154.45</b>

*Note: The calculation of the Bermuda net asset value data has been revised and restated for 2010.*

## 6. INSURANCE

Thirteen new insurers and intermediaries were registered in the Bermuda market during the fourth quarter of 2010. These numbers represent an increase of 30% over the same period in 2009.

### Insurance Company Registration Statistics<sup>1</sup>

	2010-Q4	2010-Q3*	2010-Q2*	2010-Q1*	2009-Q4	2009-Q3
Class 1	3	0	1	2	1	3
Class 2	1	0	2	1	2	0
Class 3	0	2	0	2	1	3
Class 3A	1	0	0	1	3	2
Class 3B	1	0	0	0	0	0
Class 4	2	0	0	0	0	1
Long-Term	0	2	3	2	0	0
SPI <sup>2</sup>	3	0	3	2	0	0
Dual Licence	0	0	0	2	0	0
Intermediaries	2	3	2	4	3	1
<b>Total Additions</b>	<b>13</b>	<b>7</b>	<b>11</b>	<b>16</b>	<b>10</b>	<b>10</b>

#### Explanatory Notes:

- Class 1 Single-parent captive insuring the risks of its owners or affiliates of the owners.
- Class 2 (a) a multi-owner captive insuring the risks of its owners or affiliates of the owners; or  
(b) a single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks.
- Class 3 Captive insurers underwriting more than 20% and less than 50% unrelated business.
- Class 3A Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50 million.
- Class 3B Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50 million.
- Class 4 Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- Long-Term Insurers writing long-term (or life) business.
- SPI A special purpose, single transaction or single customer insurance company which assumes (re)insurance risks, and which typically fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism, where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the (re)insurance obligations of that vehicle.
- Dual Licence Insurers writing a combination of long-term (or life) business and Class 1, 2, 3, 3A, 3B or 4 business.
- Intermediaries Insurance managers, insurance brokers, insurance agents and insurance salesmen, as defined in Section 10 of the Insurance Act 1978.

<sup>1</sup> Effective Q1 2010, the presentation of this statistical data has been revised to provide details of those companies added to the Insurance Register during each quarter, i.e. those that have been granted an insurance licence by the Bermuda Monetary Authority. Previously, statistics for company incorporations were provided in this publication. Company incorporations are completed by the Bermuda Registrar of Companies (ROC) office; statistics on insurance company incorporations will now be available from the ROC.

<sup>2</sup> The Authority began accepting applications for the SPI class of insurer as of 2009-Q1.

\*Numbers restated.

## 7. COMPANY AUTHORISATIONS

### Companies, Partnerships and Permits Statistics - Applications Approved

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
<b>Exempted Companies</b> (Bermuda companies exempted from the 60% Bermudian ownership requirement)	256	188	183	227	231	145
<b>Exempted Partnerships</b> (partnerships established in Bermuda to carry on business in or from within Bermuda)	24	5	18	14	27	7
<b>Overseas Partnerships</b> (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	1	1	1	3	1
<b>Overseas Permit Companies</b> (overseas companies applying for permits to carry on business in or from within Bermuda)	15	7	7	10	18	3
<b>Unit Trusts</b>	2	6	8	7	41	13
<b>Total Applications Approved *</b>	<b>299</b>	<b>207</b>	<b>217</b>	<b>259</b>	<b>320</b>	<b>169</b>

\* Quarterly numbers are amended to reflect more up-to-date consent information.

The statistics shown above reflect the number of applications that have received vetting clearance from the Bermuda Monetary Authority. These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

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