

Bond insurers Bermuda-bound

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By Andrea Felsted in London

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Bermuda's financial regulator is braced for a wave of bond insurers seeking to set up on the tax-friendly island.

Matthew Elderfield, chief executive of the Bermuda Monetary Authority (BMA), said the regulator had already received an application from an existing bond insurer to set up a separately capitalised Bermudian operation, and it had given the first stage of approval.

Following 2005's devastating hurricane season, which inflicted \$80bn of losses from hurricanes Katrina, Rita and Wilma, Bermuda attracted the lion's share of new reinsurance capital, with investors enticed by its zero per cent corporation tax rate and the ability to start up quickly enough to take advantage of market dislocation. The regulator is prepared should the island, which faces increased competition from other tax-friendly locations, prove a magnet for new capital flowing into the bond insurance market, which has been ravaged by the crisis in the US subprime mortgage market.

"Subprime could be like the Katrina, Rita, Wilma of the financial guarantee business, in terms of the hurricanes taking out a lot of capacity, and people seeing a business opportunity," Mr Elderfield said.

There was still a question over whether there would be "a wave of new capacity coming into the market" but the regulator was gearing up for an uptick in licence applications, he said.

The BMA, which has become more muscular, has beefed up the guidance to its licensing staff for dealing with applications from bond insurers.

"Whether or not this trickle turns into a flood, it is certainly a possibility, and it is one we want to be ready for," Mr Elderfield said.

The BMA declined to reveal the identity of the bond insurer that had applied to set up a Bermuda operation. Larger bond insurers tend to be US-based.

This week, MBIA, the biggest bond insurer, said some of its shareholders had asked it to consider relocating to a lower tax jurisdiction.

The moves come as the BMA carries out an analysis of Bermuda insurers' exposure to the subprime crisis and wider credit crunch.

Mr Elderfield said Bermuda had a "handful" of companies that guaranteed payments on bonds or provided insurance through credit default swaps, or reinsured companies writing this business, that the BMA felt required "intensive supervisory monitoring", some of which had suffered significant mark-to-market losses, or credit rating downgrades.

The regulator was talking to these companies about options, including raising capital, restructuring or going into run-off, where insurers no longer accept new business but continue to pay claims.

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