BMA

BERMUDA MONETARY AUTHORITY

Regulatory Update January - March 2017

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Preface

This bulletin reports on recent activities at Bermuda Monetary Authority (Authority) and recent developments impacting the financial sector, as well as the community generally including: 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 March 2017.*

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**Published June 2017*

Quarterly Synopsis

During the quarter, from both a liquidity and capital perspective, the local banking industry complied with their respective requirements. A report released by Moody's rating agency on Bermuda's banking sector, highlighted some key aspects such as a "strong institutional framework" and Basel III implementation as contributing factors to its 'macro profile rating'. However, there were some concerns raised about the lack of a central bank and lender of last resort.

The local (re)insurance market as reported by large commercial Bermuda (re)insurance groups, experienced higher year-on-year losses, resulting in a 5.6% increase in the combined ratio compared to a year ago. Low investment yields continue to impact the investment portfolios of the local (re)insurance sector, resulting in lower reported returns.

Local economic data revealed that Gross Domestic Product (GDP) at current prices fell by 2.2% in the third quarter of 2016, following six successive quarters of growth.

The overall capital position of the banking sector improved slightly under the new regulatory minimum requirements. Aggregated industry capital resources recorded a marginal increase in the first three months of 2017 of approximately 1.0%. The Common Equity Tier 1 (CET 1) ratio was up from 18.6% to 19.3% during the quarter, as a result of higher levels of CET 1 capital resources (up 2.0% or $33.7 million) and lower Risk-Weighted Assets (RWAs), which fell by 1.5% (or $131.5 million). The sector's Risk Asset Ratio (RAR) increased to 20.9%, which is slightly higher than the previous quarter's 20.4% ratio and reached levels similar to the same quarter last year. The additional measures introduced under the adopted-Basel III standards continued to be phased-in, as banks were required to comply with the new Capital Conservation Buffer (CCB) of 1.25%, which took effect 1st January 2017. The new phased-in CCB increased the minimum CET 1 requirements from 5.1% to 5.75% for 2017. The sector's leverage ratio climbed to 7.4%, which remains above the 5.0% regulatory minimum requirement and international standards.

Liquidity conditions were muted in Q1-2017. The sector's liquidity funding was stable with total loans to total deposits staying even at 43.3%. During the quarter, all banks complied with the new phased-in Liquidity Coverage Ratio (LCR), which increased from 70.0% to 80.0% for 2017. At the start of 2019, all banks will have to meet the fully phased-in LCR of 100.0%. Loan exposures to the real-estate market grew from 50.8% to 52.5% of total loans; whereas loans classified as "Other", consisting primarily of other forms of loans and personal loans, declined for the third consecutive quarter, falling from 32.0% to 30.7%. The domestic liquidity position was better in Q1-2017, as the loans-to-deposits ratio declined by four percentage points to 105.4%.

Sector profits increased during the quarter, led by growth in banking income sources and lower corresponding banking costs. The sector reported a 16.2% increase in quarterly net profits, which is also 6.0% higher than amounts reported a year ago. Conversely, non-operating and operating expenses declined by 3.5% helping to improve the sector's cost efficiency ratio from 68.9% to 65.0%. The increase in sector profits resulted in better returns, with annualised Return on Assets (RoA) and annualised Return on Equity (RoE) increasing to 0.3% and 2.8%, respectively.

During the quarter, the supply of Bermuda dollars within the financial sector grew by 1.5%. The domestic money supply rose by 1.5% (or $52 million) to $3.6 billion, driven largely by an increase in local customer deposits (up 1.5% or $50.4 million). Notes and coins in circulation were down, declining by 4.8% to $131 million.

The Bermuda Stock Exchange (BSX) (excluding funds) increased by 6.8% to $367.1 billion during the first quarter of 2017; the listing of Insurance Linked Securities (ILS) on the BSX remains strong amongst global ILS deals. Market capitalisation rose by $23.3 billion to $367.1 billion, with most of the activity arising from changes in trading volume amongst international companies. During the quarter, 84 ILS deals were listed on the BSX amounting to a nominal value of approximately $21.0 billion, which represents 77.2% of all outstanding stock of global ILS deals.

Bermuda's (re)insurance industry posted higher losses in Q1-2017 compared to the same period a year earlier, resulting in an increase in the total combined ratio. The combination of a lingering soft market; low investment returns, and alternative insurance risk transfer contributed to the increase in losses and raised the aggregate combined ratio from 89.5% to 94.6% compared to a year ago. The return on invested assets continued to generate low returns, with Return on Investments (RoI) close to 0.6%, while Return on Equity (RoE) fell to1.5%.

International Monetary Fund (IMF) released two reports in Q1-2017, one highlighting the condition of global stability, and the other focusing on the world economy; local data shows Bermuda's GDP contracted in the third quarter of 2016. In its semi-annual Global Financial Stability Report issued by the IMF, it reported that global financial stability has "continued to improve" since its last assessment in October. Despite these improvements the IMF warned that new threats are emerging: elevated political and policy uncertainty around the world, ability of US corporations to react to interest rate increases and a shift toward protectionism in advanced economies. In its recent World Economic Outlook, the IMF estimates that global growth is expected to rise to 3.5% this year and 3.6% in 2018, compared to 3.1% last year. At the US Federal Reserve meeting in March, policymakers delivered a widely expected 25

basis point increase in interest rates but maintained its forecasts for the pace of tightening this year signaling that just two further rate increases are likely for 2017.

Locally, an economic recovery is underway but there are signs that the rate of expansion is slowing. GDP growth turned negative in the third quarter of 2016, after six consecutive quarters of positive growth. The Bermuda Department of Statistics showed that Bermuda's economy contracted in the third quarter of 2016. After adjusting for inflation, GDP was down 2.2% for the quarter. The slowdown in growth reflected a $36.6 million decrease in the external balance of goods and services. The net surplus on trade in goods and services deceased due primarily to the combined effects of lower receipts for exports of services and higher payments for imports.

Market Analysis and Quarterly Statistics

A) BERMUDA MONEY SUPPLY

Money supply continued to steadily increase, rising 1.5% during the quarter and 2.5% year-on-year. The quarterly increase in Bermuda money supply was largely due to the influx in Bermuda customer deposits, which rose by 1.5% (or $50.4 million). The decline in notes and coins in circulation (down 4.8% or $6.5 million) partially negated some of the increase in overall money supply.

Bermuda Money Supply

(BD$ mln)	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Notes & Coins in Circulation*	131	137	128	129	125	133
Deposit Liabilities	3,499	3,448	3,450	3,458	3,416	3,359
Total	**3,630**	**3,586**	**3,578**	**3,587**	**3,541**	**3,492**
Less: Cash at Banks and Deposit Companies	38	46	38	39	38	45
BD$ Money Supply	3,592	3,540	3,539	3,548	3,503	3,447
% Change on Previous Period	1.47%	0.01%	-0.25%	1.28%	1.63%	-0.25%
% Change Year-on-Year	**2.52%**	**2.25%**	**1.03%**	**2.93%**	**2.63%**	**3.53%**

Totals may not add due to rounding.

* *This table denotes the supply of Bermuda Dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.*

B) DOMESTIC AND FOREIGN CURRENCY POSITION

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

(BD$ mln)	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Deposit Liabilities	3,499	3,448	3,450	3,458	3,416	3,359
Less: Loans, Advances and Mortgages	(3,688)	(3,772)	(3,812)	(3,876)	(3,915)	(3,971)
Surplus/(deficit) Deposits	(189)	(324)	(362)	(418)	(499)	(611)
Percentage of Deposit Liabilities Loaned	**105.4%**	**109.4%**	**110.5%**	**112.1%**	**114.6%**	**118.2%**

Totals may not add due to rounding.

The sector's domestic liquidity position continued to improve in Q1-2017, reducing the level of dependency on foreign currency funding. The loan-to-deposit ratio fell from 109.4% to 105.4% as local deposit liabilities increased by 1.5% (or $50.4 million) compared to the decline in domestic loan stock (down 2.2% or $84.6 million). The local sector's liquidity position is less reliant on foreign currency funding to supplement domestic lending.

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

(BD$ mln)	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Total Foreign Currency Assets	18,346	18,582	18,242	19,597	19,904	19,715
Less: Other Assets	273	300	314	255	162	183
Less: Foreign Currency Loans to Residents	915	887	1,115	1,073	1,089	999
Net Foreign Currency Assets	17,159	17,395	16,814	18,269	18,653	18,533
Foreign Currency Liabilities	16,691	17,017	16,490	17,860	18,239	18,313
Add: BD$ Deposits of Non-Residents	171	162	182	154	155	116
Net Foreign Currency Liabilities	16,862	17,179	16,671	18,013	18,394	18,429
Net Foreign Currency Position	**297**	**215**	**142**	**256**	**259**	**104**

Totals may not add due to rounding.

The sector's foreign currency position continued to build in Q1-2017, improving for the second consecutive quarter. The net foreign currency position grew during the quarter, rising by 37.7% (or $81.0 million). Net foreign currency assets fell by 1.4% (or $235.7 million) compared to the faster decline in net foreign currency liabilities, down 1.9% (or $317 million); resulting in an overall higher net position for the quarter.

C) BANKING

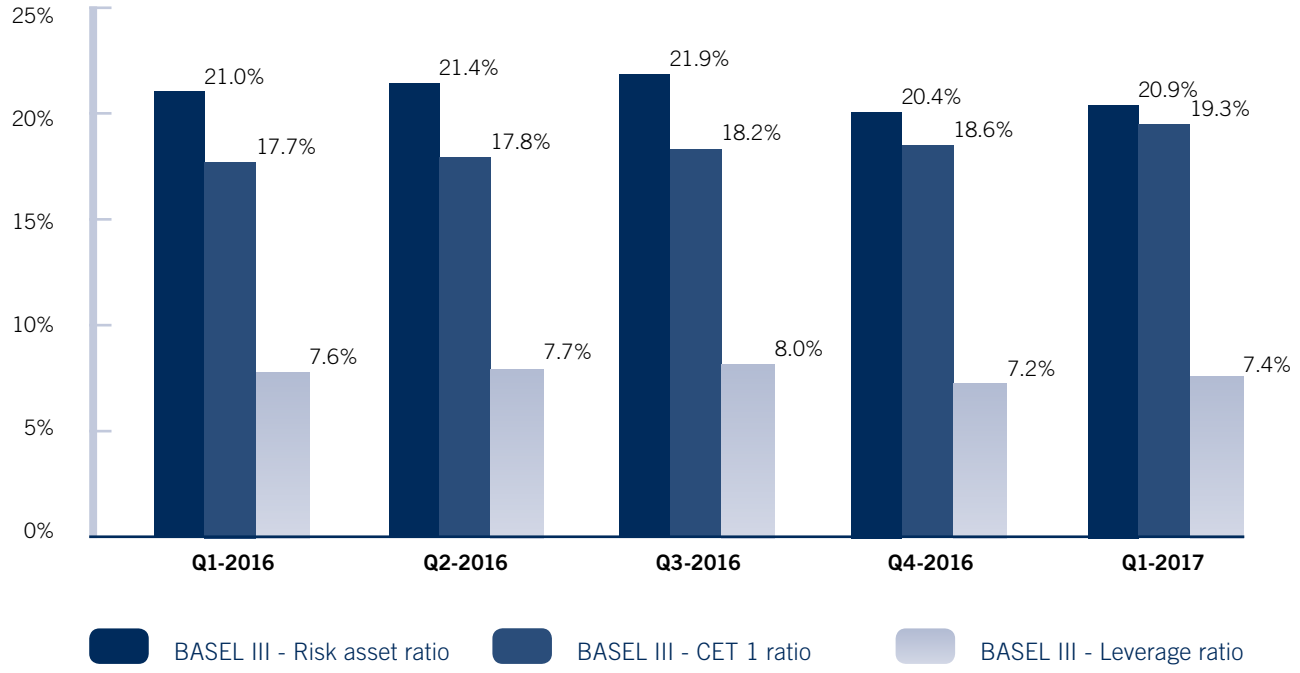
Banking Sector Assets and Deposits

(BD$ mln)	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Total Assets	22,454	22,713	22,414	23,901	24,206	24,072
Quarterly Change (%)	-1.1%	1.3%	-6.2%	-1.3%	0.6%	2.8%
Total Deposits	19,947	20,216	19,501	21,051	21,275	21,365
Quarterly Change (%)	-1.3%	3.7%	-7.4%	-1.1%	-0.4%	3.4%

Total assets experienced a modest decline in Q1-2017, falling by 1.1% to $22.5 billion; while total customer deposits fell by a similar rate of 1.3% to $19.9 billion. The net decrease in sector assets was driven by lower reported earning assets, as investments, down 6.6% to $9.0 billion and loans, down 1.6% to $8.6 billion outstripped the increase in interbank deposits, up 15.6% to $4.1 billion. Funding sources from customer deposits declined during the quarter, as demand deposits, down 3.4% and time deposits, down 6.4% offset the increase in savings deposits, up 4.3%.

Basel III Ratios

The sector's risk asset ratio (RAR) under the newly-adopted Basel III requirements, increased to 20.9% in the first quarter of 2017.



Period	RAR	RAR Change	CET I	CET 1 Change
2017 Q1	20.9%	0.5%	19.3%	0.7%
2016 Q4	20.4%	-1.6%	18.6%	0.4%
2016 Q3	21.9%	0.5%	18.2%	0.4%
2016 Q2	21.4%	0.4%	17.8%	0.1%
2016 Q1	21.0%	1.9%	17.7%	1.8%

The CET 1 ratio rose from 18.6% to 19.3% over the quarter, with most of the movement occurring in risk-weighted assets (RWAs), down 1.5% (or $131.5 million), while CET 1 had an increase of 2.0% (or $33.7 million).

Combined Balance Sheet Of Bermuda Banks And Deposit Companies (Consolidated)

	Q1-2017			Q4-2016			Q3-2016		
(BD$ mln)	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***
Assets									
Cash	80	38	42	104	46	58	87	38	49
Deposits	4,118	25	4,093	3,564	16	3,547	3,428	24	3,404
Investments	8,970	42	8,929	9,600	41	9,559	8,988	41	8,947
Loans & Advances	8,629	3,620	5,010	8,773	3,656	5,117	9,222	3,694	5,528
Premises & Equipment	406	263	143	418	248	170	439	260	179
Other Assets	251	121	130	254	124	130	250	115	135
Total Assets	**22,454**	**4,108**	**18,346**	**22,713**	**4,132**	**18,582**	**22,414**	**4,172**	**18,242**
Liabilities									
Demand Deposits	10,249	1,110	9,139	10,607	1,081	9,525	10,320	1,096	9,224
Savings	6,895	1,597	5,297	6,613	1,567	5,046	6,329	1,539	4,790
Time Deposits	2,804	779	2,025	2,996	785	2,211	2,852	793	2,058
Sub Total - Deposits	**19,947**	**3,486**	**16,461**	**20,216**	**3,433**	**16,783**	**19,501**	**3,428**	**16,073**
Other Liabilities	521	292	230	563	328	235	701	284	417
Sub Total - Liabilities	**20,468**	**3,777**	**16,691**	**20,779**	**3,761**	**17,017**	**20,201**	**3,711**	**16,490**
Equity & Subordinated Debt	1,986	1,864	122	1,935	1,825	110	2,213	1,831	382
Total Liabilities and Capital	**22,454**	**5,641**	**16,813**	**22,713**	**5,586**	**17,127**	**22,414**	**5,542**	**16,872**

	Q2-2016			Q1-2016			Q4-2015		
(BD$ mln)	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***	**Total**	**BD$**	**Other***
Assets									
Cash	81	39	42	78	38	40	81	45	36
Deposits	5,072	31	5,040	3,750	30	3,720	3,813	25	3,788
Investments	8,290	38	8,253	10,338	35	10,303	10,425	39	10,386
Loans & Advances	9,660	3,762	5,897	9,340	3,802	5,538	9,073	3,862	5,211
Premises & Equipment	337	227	110	348	236	112	406	294	112
Other Assets	461	207	255	353	161	192	274	92	183
Total Assets	**23,901**	**4,304**	**19,597**	**24,206**	**4,302**	**19,904**	**24,072**	**4,357**	**19,715**
Liabilities									
Demand Deposits	11,453	1,085	10,368	11,372	1,130	10,242	11,668	1,049	10,619
Savings	6,465	1,524	4,941	7,060	1,536	5,524	6,493	1,489	5,004
Time Deposits	3,133	821	2,312	2,843	741	2,102	3,204	799	2,405
Sub Total - Deposits	**21,051**	**3,430**	**17,620**	**21,275**	**3,407**	**17,868**	**21,365**	**3,337**	**18,028**
Other Liabilities	590	351	239	731	360	371	567	281	286
Sub Total - Liabilities	**21,641**	**3,781**	**17,860**	**22,006**	**3,767**	**18,239**	**21,931**	**3,618**	**18,313**
Equity & Subordinated Debt	2,260	1,869	390	2,199	1,839	361	2,141	1,797	344
Total Liabilities and Capital	**23,901**	**5,650**	**18,250**	**24,206**	**5,606**	**18,600**	**24,072**	**5,415**	**18,657**

Premises and Equipment and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets.

** Other includes USD and other currencies.*

D) BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX (excluding funds) was $367.1 billion at the end of Q1-2017, up by $23.3 billion from $343.8 billion in Q4-2016. This increase was primarily due to changes in the trading values of several large, international companies. Total trading volume in Q1-2017 was 1,631,331 shares (1,321,206 shares in Q4-2016 and 2,733,142 shares in Q1-2016), with a corresponding market value of $13.1 million (an increase of 40.0% from $9.4 million in Q4-2016 and an increase of 105.0% from $6.4 million in Q1-2016). The valuation of domestic firms constituted 0.63% of the total market at end Q1-2017, with domestic market capitalisation amounting to $2.3 billion, down by $212.2 million from the previous quarter.

At the end of Q1-2017, the market capitalisation of insurance-linked securities (ILS) on the BSX stood at $21.0 billion, representing 77.2% of the global stock of outstanding ILS deals. At quarter-end, a total of 84 ILS deals (comprising 132 tranches) were listed on the BSX, with an aggregate nominal value of approximately $21.0 billion. Global market capitalisation of ILS rose to $27.1 billion, as $2.8 billion in new issuances outpaced $2.5 billion in maturing bonds during the quarter.

Selected Stock Market Performance Indicators*

In % unless indicated otherwise

	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Price Return[1/]						
BSX	1.99	8.97	7.03	-0.27	-3.29	2.43
BSX - Insurance	1.89	1.66	0.43	-0.24	0.20	1.88
DJII	1.85	2.60	0.97	0.88	-0.31	2.43
Return Volatility						
Annualised Standard Deviation[2/]						
BSX	4.86	5.54	3.61	3.26	3.60	3.14
BSX - Insurance	1.45	1.41	2.13	2.28	2.25	2.23
DJII	2.28	3.37	3.80	3.96	3.50	2.83
Normalised Squared Returns (in standard deviations)[3/]						
BSX	0.30	4.70	4.99	-0.14	0.83	0.92
BSX - Insurance	0.00	0.00	-0.08	-0.05	-0.02	0.06
DJII	-0.13	1.08	-0.11	-0.22	5.90	1.97
Trading Volume/Market Capitalisation[4/]						
BSX	0.56	0.83	1.05	0.29	0.37	0.25
DJII	7.14	7.52	7.14	7.77	9.33	8.92
Real Dividend Yield[5/]						
BSX	3.18	3.54	2.55	2.62	2.23	1.89
DJII	-0.17	0.71	1.40	1.54	1.60	2.02

Sources: Bloomberg, BSX and the Authority's staff calculations.

Notes:

** The figures for the BSX and the BSX-Insurance indices cover domestic listings only.*

1/ Quarterly average of month-on-month change of last prices.

2/ Quarterly average of annualised standard deviation of month-on-month change of last prices.

3/ Quarterly average of squared month-on-month changes of last prices, normalised over a rolling window of four years (16 quarters); a positive (negative) value indicates above (below) average performance conditional on market volatility.

4/ Cumulative quarterly trading volume relative to the average market capitalisation during the same time period.

5/ Quarterly average of month-on-month dividend yield adjusted for headline inflation in Bermuda and the United States, respectively.

The overall performance of the BSX was positive during Q1-2017. The table above provides a summary of selected indicators of stock market performance over the last six quarters (Q4-2015 to Q1-2017), comparing the recent development of the BSX to that of the Dow Jones Industrial Index (DJII) as the global equity market benchmark (which proxies the impact of US capital market performance on Bermuda's international business sector). Over the last quarter, the BSX index recorded a positive return of 1.99% (down from 8.97% in Q4-2016) amid lower annualised volatility of 4.86% (down from 5.54% in Q4-2016), while trading volume fell to 0.56% of market capitalisation. Following a strong risk-return trade-off, the BSX index outperformed global standards, relative to the DJII, which recorded a quarterly return of 1.85% (down from 2.60% in Q4-2016) amid lower annualised return volatility of 2.28% (down from 3.37% in Q4-2016). The risk-return trade-off was also favourable for the insurance sub-index (BSX-Insurance). The total return performance was 1.89% during the quarter (up from 1.66% in Q4-2016), while volatility rose to 1.45% (up from 1.41% in Q4-2016).

The following charts show the BSX quarterly closing levels (indexed to Q1-2005 as base year), the annualised return volatility, the dividend yield (in both nominal and real terms), and the trading volume up to Q1-2017 (Charts 1-4). While capital gains of the BSX have turned negative since the beginning of 2009, dividend pay-outs remain high and were above international markets for a fifth consecutive quarter. The aggregate dividend yield of stocks listed on the BSX over the last quarter stood at 3.02% (down from 3.53% in Q4-2016) after adjusting for headline inflation, which was higher than comparable yields generated by stocks included in the DJII (negative 0.17%). At the same time, the annualised return volatility (as a measure of risk) was higher than that of the DJII (and above the long-term average over the last four years, as indicated by the positive value of normalised squared returns in the table below).

Note: The total trading volume and corresponding market value data for the period Q1-2011 – Q4-2016 provided in previous editions of the Regulatory Update, were on a cumulative YTD basis, and not on a quarterly basis, as reported in error.

Chart 1. Price Level, indexed (Q1-2005=100)

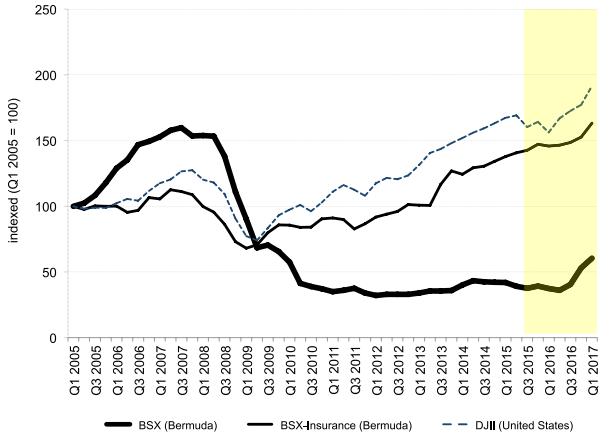


Chart 2. Annualised Return Volatility

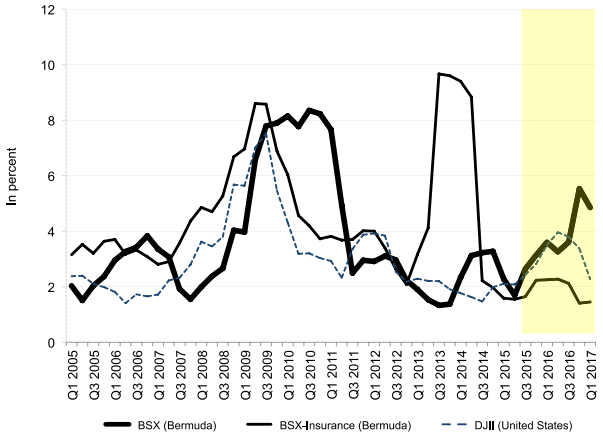


Chart 3. Dividend Yield (nominal and inflation-adjusted)

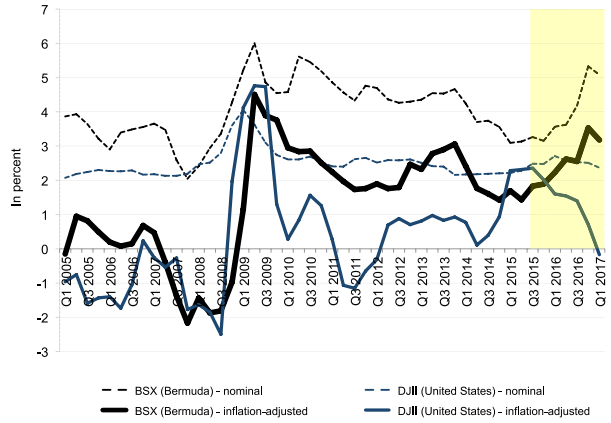
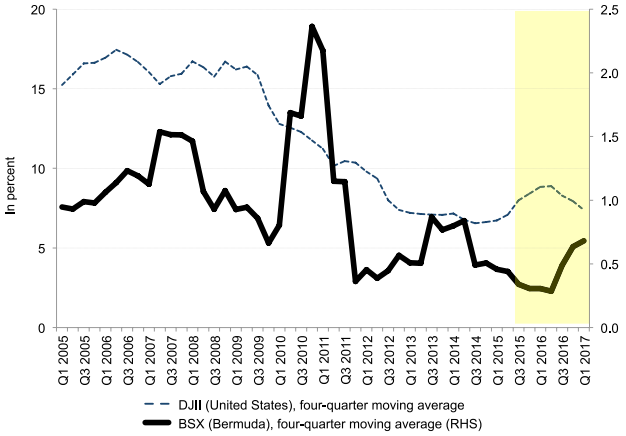


Chart 4. Ratio Between Trading Volume and Market Capitalisation



E) INVESTMENT FUNDS

Investment Fund Statistics

	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Mutual Funds	389	392	405	415	419	429
Umbrella Funds	33	35	35	36	37	38
Segregated Accounts Companies (SAC)	67	68	73	69	68	69
Unit Trusts	25	28	43	44	43	52
Umbrella Trusts	40	44	28	28	29	36
Total Number of Funds	554	567	584	592	596	624
Net Asset Value (in US$ bln)	**$135.03**	**$137.15**	**$139.34**	**$151.81**	**$150.19**	**$144.22**

Q1-2017 saw a decrease in the total number of funds by 13 (or 2.29%). Throughout this same period the portfolio experienced a marginal decrease in the total NAV by 1.8% or $2.12 billion, from $137.15 billion to $135.03 billion. The majority of the funds reported increased subscriptions during the last quarter but performance and fund restructures negatively impacted the statistics.

F) COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Exempted Companies (Bermuda companies exempted from the 60.0% Bermudian ownership requirement)	205	240	216	212	238	329
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	31	21	18	47	28	38
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	3	2	1	1	8
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	21	5	1	13	3	3
Total Applications Approved*	**258**	**269**	**237**	**273**	**270**	**378**

** 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 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.

G) INSURANCE

Insurance Registrations (Q1-2017)

During the first quarter of 2017, the Authority registered nine insurers. This compares to eight insurers and nine intermediaries for the same period last year.

Name	Date	Type
Registrations in January 2017		
Premia Reinsurance	01-Jan-17	4
Eclipse Re Ltd.	27-Jan-17	SPI
Phoenix Insurance Limited	30-Jan-17	1
Registrations in February 2017		
Macquarie (Bermuda) Limited	24-Feb-17	3
Halco Insurance Company (Bermuda) Limited	28-Feb-17	1
Registrations in March 2017		
Buffalo Re Ltd.	09-Mar-17	SPI
Hagerty Reinsurance Limited	10-Mar-17	3A
First Mile Reinsurance Company, Ltd.	10-Mar-17	2
Monument Re Limited	17-Mar-17	E
Total Registrations		
Insurers: 9	Intermediaries: 0	

Descriptions of the various classes of insurer can be found in the Explanatory Notes section of this publication on page 19.

Quarterly Review of the Commercial (Re)insurance Sector – Bermuda (Re)insurance Groups (as of end Q1-2017)

The following section provides the main findings from a review of quarterly public US GAAP filings of (re)insurers that fall within the group wide supervision by the Authority (Bermuda groups). These findings reflect general trends and developments of the sector in aggregate and do not imply changes in the supervisory assessment in relation to individual firm performance.

The first quarter of 2017 recorded higher losses for large commercial Bermuda (re)insurance groups[1] compared to Q1-2016, while the combined ratio increased by 5.6% q/q[2]. The pricing dynamics in the market have not changed. The prolonged soft market is expected to continue which is supported by a continuing benign claims experience, low investment yields and transfer of insurance risks to capital markets.

Bermuda (re)insurance groups improved their asset base by 5.5% q/q. Bermuda (re)insurers produced a positive gross profit of $1.3 billion, which was lower by 17.6% q/q due to higher losses. The aggregate combined ratio stood at 94.6% compared to 89.5% in Q1-2016. The loss ratio increased by 9.7% q/q due to higher losses while the expense ratio marginally declined. Investment income represented 85.6% of net income, a significant increase by 44.8% from Q1-2016 due to lower net income.

Reserve leverage dropped slightly by 0.7% q/q and financial leverage increased by 0.9% q/q. Total equity increased by 4.5% q/q while reserves increased by 3.8%, thus decreasing the reserve leverage. The faster increase of assets compared to equity increased the financial leverage. Net written premiums to equity, which is a very rough inverse measure of solvency, dropped by 2.2% q/q reaching 56.6%.

The investment portfolios of Bermuda (re)insurance groups produced a low Return on Investment (RoI) close to 0.6%, an improvement of 21.0% q/q. Return on Equity (RoE) dropped significantly due to higher losses by 18.9% q/q. As a proxy for liquidity, the sum of cash and high quality "AAA"-rated securities represents 183.0% of claims for Q1-2017, a decrease of 13.2% q/q.

[1] *The information presented in this section relates to public filings under US GAAP of publicly traded insurance groups that have an entity registered as a Class 4 or 3B commercial (re)insurer and fall within the group wide supervision by the Authority (Bermuda groups). The presented information is based on aggregated individual firm data.*

[2] *Note that the quarter-on-quarter (q/q) change compares the change in a value between the current quarter and the corresponding quarter of the previous year, e.g., Q1-2017 and Q1-2016.*

Table 1. Select Financial Soundness Indicators (FSIs)

(In % unless indicated otherwise)	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2016 FY	2015 FY	Change (%) QoQ	Change (%) YoY
Capital Adequacy and Asset Quality									
Assets (In US$ bln)	**211.8**	203.6*	205.7	204.2	200.7	**203.6**	**192.5**	5.5	5.8
Reserves to Assets (Reserve Ratio)	**55.9**	55.2*	55.8	56.7	56.8	**55.2**	**56.2**	-1.6	-1.7
Reserves to Equity (Reserve Leverage) 1/	**187.8**	181.0*	183.2	189.5	189.2	**181.0**	**182.7**	-0.7	-1.0
Assets to Equity (Financial Leverage) 2/	**335.8**	327.6*	328.4	334.0	332.8	**327.6**	**325.1**	0.9	0.7
Net Written Premiums to Equity 3/	**56.6**	57.9*	57.0	58.7	57.9	**57.9**	**56.1**	-2.2	3.1
Profitability and Actuarial Issues									
Gross Profit (excl. capital gains) (In US$ bln)	**1.3**	1.3*	1.7	1.0	1.5	**5.6**	**6.5**	-17.6	-13.9
Investment Income to Net Income	**85.6**	177.1*	58.3	82.7	77.6	**74.2**	**68.5**	44.8	14.1
Combined Ratio	**94.6**	94.0*	89.5	97.2	89.5	**92.7**	**89.1**	5.6	4.0
Average Claims to Reserves 4/	**2.2**	2.4*	2.2	2.2	2.1	**2.2**	**1.8**	3.4	-3.8
Return on Equity	**1.5**	0.7*	2.2	1.5	1.4	**6.6**	**7.0**	-18.9	-11.6
Return on Investment	**0.6**	0.6*	0.6	0.6	0.5	**2.3**	**2.3**	21.0	3.3
Cash and "AAA" Assets to Claims 5/	**183.0**	146.9*	200.2	194.1	210.9	**139.2**	**221.3**	-13.2	-37.1

Source: Authority staff calculations.

Note: numbers may not add up due to rounding.

1/ Reserve leverage is the ratio between reserves and shareholder's equity (defined as share capital plus additional paid-in capital and retained earnings)

2/ Financial leverage is based on total assets divided by total common equity

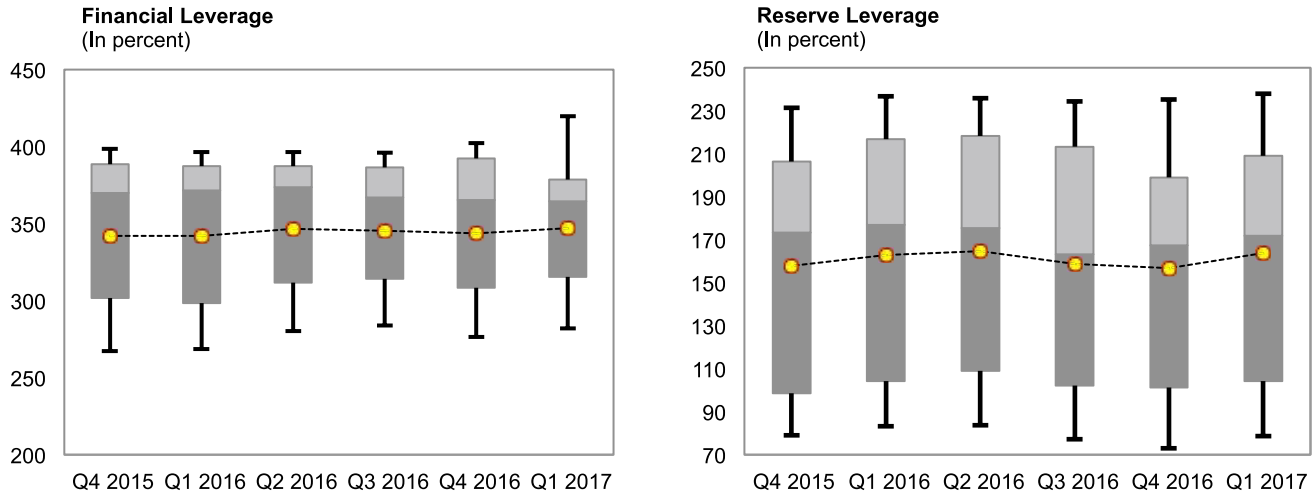
3/ Quarterly values contain the cumulative amount of NWPs over the last four quarters as numerator

4/ Three-quarter average

5/ Due to frequent revisions of the components of the ratio from Bloomberg, the series is stated only for firms without restatements. The general picture with the past does not change from a qualitative point of view

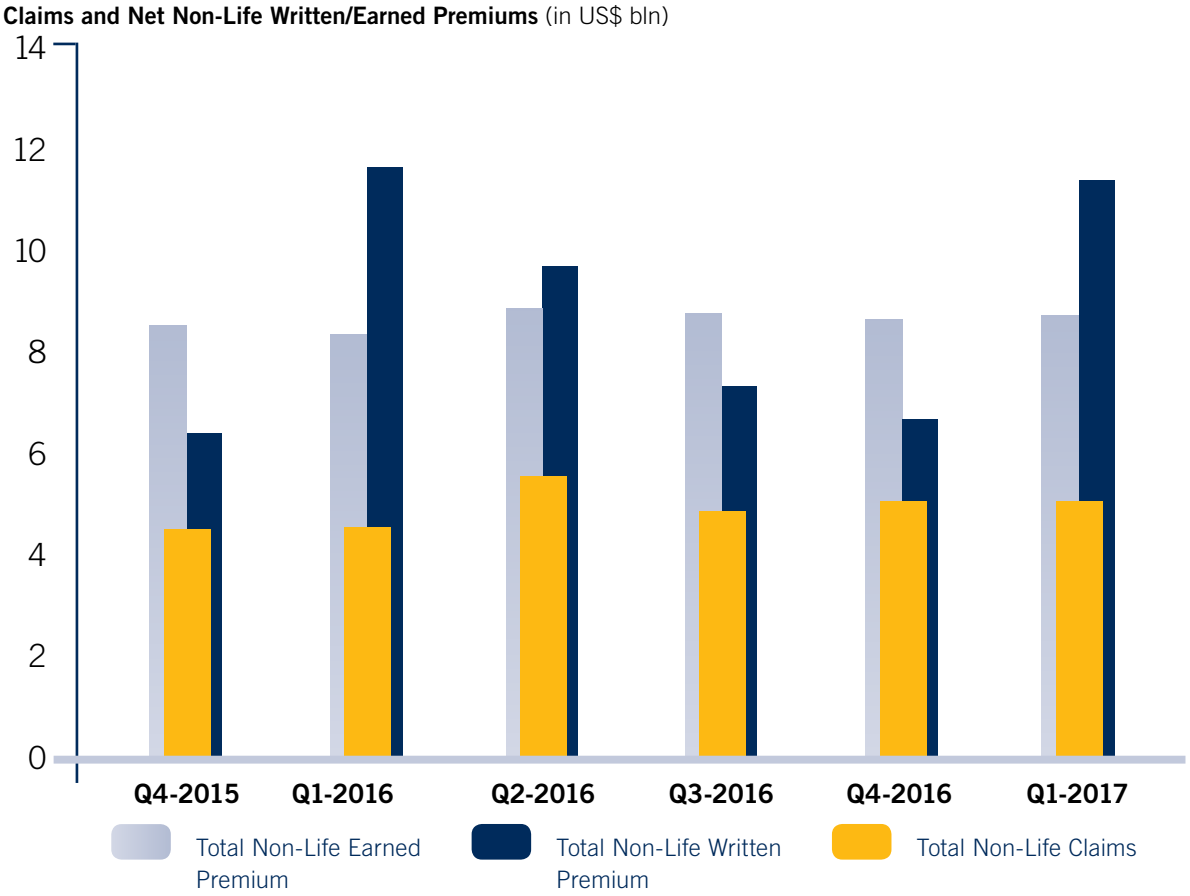
N.B. - Due to new inclusions, the current table is not directly comparable to previous Regulatory Update tables. Due to late earnings releases BMA used the most up to date information for one group. It is expected that the Q4-2016 data will be revised in the next Regulatory Update. The star (*) means restated.

Figure 1. Dispersion of Financial and Reserve Leverage



Source: the Authority staff calculations. Note: Boxplots include the mean (yellow dot), the 25th and 75th percentiles (grey box, with the change of shade indicating the median), and the 10th and 90th percentiles (whiskers).

Figure 2. Claims Volume and Premium Income (Q4-2015 to Q1-2017)



Source: Authority staff calculations.

Regulatory and Legislative

SUPERVISION

Amendments made to Insurance Legislation, Rules and Regulations

In January 2017, the Authority published Insurance Prudential Standards relating to the insurance managers annual return template, Class 3A, 3B, 4, C, D, E and group solvency requirements, and rules for eligible capital, group supervision and public disclosure. Then in February, the Authority published a revised Insurance Act, Insurance Accounts Regulations and revised Insurance Returns and Solvency Regulations as well as the Insurance (Prudential Standards) (Insurance Managers Annual Return) Rules 2017 and Insurance Managers Annual Return Template. The Prudential Rules will be assessed as part of the implementation of the Insurance Managers' Code of Conduct. The Annual Return Template should be sent to insurancemanagers@bma.bm on or before 30th June 2017.

Bermuda Solvency Capital Requirement (BSCR) Model Updated

On 28th February, the Authority clarified BSCR 2016 year-end reporting on stress scenarios related to inflation shock and mortgage loan shock (including rates that should be applied and supporting documentation requirements). The Authority is also seeking information on cyber risk. Additionally, the Authority clarified the information to be provided in the Catastrophe Risk Return - Schedule X(a) and X(b) of the model. The Authority also re-published the BSCR models for use of Windows 10 and prior.

BSCR Consultation Papers Issued in March

On 15th March 2017, the Authority released a Consultation Paper which proposed restructuring certain aspects of the BSCR standard formula. This was an update to the November 2016 consultation paper. Equity risk, premium risk, credit risk, dependencies within premium and reserve risk, the overall aggregation process, operational risk, other BSCR adjustments, BSCR charges for run-off insurers, currency risk and grade in arrangements were all considered for restructuring. Changes would impact all Bermuda commercial (re)insurers and insurance groups. On 13th April 2017, the enter-into-force date was amended to 31st December 2018. The Authority anticipates consulting on additional technical measures and related requirements during Q3-2017.

Also in March, the Authority thanked stakeholders for their feedback on the BSCR November 2016 consultation and responded to comments. The Authority also issued scaled-down versions of the current group, 3A, 3B, 4, C, D and E BSCR market trial run models. Participants in the trial run were asked to submit the model no later than 15th May 2017.

Reporting Forms and Guidelines Issued for 2016 Year-End Filings and Stress and Scenario Instructions

On 28th February, the Authority published a summary of frequently asked questions for the 2016 year-end BSCR filings. Additionally, on 14th March the Authority published Stress Scenario instructions for commercial (re)insurers and insurance groups. Inflation risk and mortgage loan shock was added to the stress scenarios and additional information was requested on cyber risk.

INTERNATIONAL

In January, the Authority met with the **Reinsurance Supervision Department of Central Bank of Ireland (CBI).** At the same time, the Authority attended a CBI hosted conference entitled, "Mapping, Risk Assessment and Supervision of Non-Bank Financial Intermediation".

In Basel, Switzerland in February, the Authority attended a **meeting about the Bank of International Settlements' (BIS) international banking and financial statistics.** The purpose of the meeting was to discuss methodological and operational questions concerning banking and financial statistics collected (the Authority is a contributor) for the BIS studies under the auspices of the Committee on the Global Financial System (CGFS) and the Markets Committee.

Authority staff also participated in numerous International Association of Insurance Supervisors (IAIS) meetings throughout Q1-2017. **IAIS Macroprudential Policy and Surveillance Working Group (MPSWG) was held in Rio de Janeiro from 9th - 10th February.** IAIS MPSWG is a key body responsible for macroprudential developments in the insurance sector. Authority staff contributes to MPSWGs mandate by leading on global level macroprudential work carried out by IAIS in relation to risk transfer to the capital markets. The Authority is also involved in the revision of Insurance Core Principle (ICP) 24. Authority staff provided an update on the progress made by the Reinsurance Task Force in respect to the revision of ICP 13 at an **IAIS Financial Stability and Technical Committee (FSTC) meeting in Basel on 27th February.** The Authority also attended an **IAIS Working Party Chairs meeting in Basel on 27th February** as Working Party Chairs looked into key initiatives under the responsibility of IAIS's Financial Stability and Technical Committee, including the development of the IAIS ComFrame. On the same day in Basel, the Authority was vice chair of an **IAIS Core Curriculum Task Force** meeting in charge of reviewing IAIS training material for insurance supervisors. **In March, the Authority participated in an IAIS Reinsurance Task Force (ReTF) meeting in Rio de Janeiro.** IAIS ReTF is the IAIS body responsible for revising international standards on reinsurance, including the regulation of capital markets participation in the funding of insurance risk.

The Authority's contribution to ReTF includes chairing the TF as well as leading on the drafting of standards on insurance risk transfer to capital markets.

Other international standard-setting meetings in which the Authority participated during Q1-2017 included:

- 15th – 16th January: IAIS Executive Committee meeting, La Jolla, US
- 17th – 18th January: IAIS Financial Stability & Technical Committee, La Jolla, US
- 24th – 25th January: IAIS Financial Crime Task Force, Basel, Switzerland
- 18th – 24th February: Financial Action Task Force plenary meeting, Paris, France
- 6th – 10th February: IAIS Capital Solvency & Field Test Working Group, Basel, Switzerland
- 1st March: IAIS Accounting & Auditing Working Group, Basel, Switzerland
- 6th – 10th March: IAIS Capital Solvency & Field Test Working Group, New York, US
- 17th March: met with Prudential Regulatory Authority, London,UK
- 23rd – 24th March: Insurance Groups Working Group, Rome, Italy

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 20.0% of its net premiums from unrelated risks.
- Class 3: Captive insurers underwriting more than 20.0% and less than 50.0% unrelated business.
- Class 3A: Small commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are less than $50.0 million.
- Class 3B: Large commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are more than $50.0 million.
- Class 4: Insurers and reinsurers capitalised at a minimum of $100.0 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- Long-Term – Class A:
  A single-parent Long-Term (life) captive insurance company underwriting only the Long-Term business risks of the owners of the insurance company and affiliates of the owners.
- Long-Term – Class B:
  Multi-owner Long-Term captives which are defined as Long-Term insurance companies owned by unrelated entities, provided that the captive underwrites only the Long-Term business risks of the owners, and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A Class B license will also apply to single-parent and multi-owner long-term captives writing no more than 20.0% of net premiums from risks which are not related to, or arising out of, the business or operations of their owners and affiliates.
- Long-Term – Class C:
  Long-Term insurers and reinsurers with total assets of less than $250.0 million, and not registrable as a Class A or Class B insurer.
- Long-Term – Class D:
  Long-Term insurers and reinsurers with total assets of $250.0 million or more but less than $500.0 million, and not registrable as a Class A or Class B insurer.
- Long-Term – Class E:
  Long-Term insurers and reinsurers with total assets of more than $500.0 million, and not registrable as a Class A or Class B insurer.
- SPI: A Special Purpose Insurer (SPI) assumes insurance or (re)insurance risks and typically fully funds its exposure to such risks through a debt issuance or some other financing.
- Intermediaries: Insurance managers, insurance brokers, insurance agents and insurance salesmen, as defined in Section 10 of the Insurance Act 1978.

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