

Regulatory Update January - March 2016

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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 is 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 March 2016.*

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Quarterly Synopsis

During Q1-2016, the financial condition of Bermuda's banking sector continued to strengthen with financial institutions more than meeting higher capital and liquidity standards under the newly adopted Basel III requirements. Bermuda banks' overall capital position under Basel III reporting remained well above regulatory requirements, sector profitability improved and total assets were unchanged. Loan book quality also showed steady improvement, as Non-Performing Loans (NPLs) as a percentage of total loans fell to its lowest quarterly level in four years. Bermuda (re)insurance groups experienced higher losses during the quarter when compared to the same period last year, resulting in lower profitability and a higher loss ratio.

The banking sector's overall capital adequacy remained sound, as the Basel III-Risk Asset Ratio (RAR) and Common Equity Tier 1 (CET 1) ratio increased for the third consecutive quarter.

Under new regulatory capital requirements, RAR increased from 19.1% in Q4-2015 to 21.0% in Q1-2016, while the primary capital adequacy measure CET 1 improved from 15.9% to 17.7%. Lower risk exposures and better capital levels contributed to overall improvement within the banking sector. The Basel III leverage position was slightly better than the previous quarter, rising from 7.4% to 7.6%. Total asset movement was unchanged compared to a year ago, though noticeable shifts within the asset categories have occurred throughout the year. Loans and investments grew by 9.9% (or \$844.0 million) and 9.6% (or \$906.7 million), respectively year-on-year, while interbank deposits declined by 29.7% (or \$1.6 billion) over the same period.

Bank profits rebounded in the first three months of 2016, due to higher earnings and lower costs related to banking operations.

Sector earnings increased during Q1, as banking and non-banking income sources rose by 22.5% and 18.2%, respectively. Total operating expenses fell by 9.7% while non-operating expenses declined by 76.5% mainly due to net charge-offs. Overall cost efficiency improved during the quarter, as non-interest expenses to total income fell from 88.5% to 66.5%. The increase in sector profits boosted quarterly returns, as both the annualised Return on Equity (RoE) and Return on Assets (RoA) increased from 4.0% to 12.6% and from 0.4% to 1.1%, respectively. Banks continued to manage their loan books prudently, with NPLs as a percentage of total loans falling to a four year low of 7.6% during the quarter. Provisions reported by banks remained steady at \$200.0 million, while banks wrote-off \$5.2 million in uncollectible loans during the quarter.

Liquidity conditions within the banking sector improved with loan demand picking up during the first quarter of 2016. Quarterly loan activity remained positive, despite some sectors experiencing

low demand. Demand within the real-estate market continued to be muted, as loans to this sector fell from 54.0% to 51.5% during the quarter – the lowest level since 2009. Loans to “other” sectors declined marginally, from 30.4% to 30.2% while loans to “other business and services” fell for the third successive quarter (from 7.4% to 6.7%). The sector's liquidity funding structure remained positive – the ratio of loans to total deposits rose for the third consecutive quarter (from 42.5% to 43.9%). Higher quarterly loan activity (up 2.9%), compared to a decrease in customer deposit levels (down 0.4%), resulted in further narrowing of the sector's funding gap. The banking sector's foreign currency liquidity funding ratio continued to trend higher, rising from 28.9% to 31.0%, driven mainly by the rise in FX\$-denominated lending (up 6.3%) compared to a marginal decline in FX\$-denominated customer deposits (down 0.9%). At the end of Q1-2016, all banking institutions were in compliance with the new 70.0% phased-in Liquidity Coverage Ratio (LCR) as per the Authority's Basel III Final Rule.

Overall money supply grew 1.6% (or \$56.2 million) during the quarter and increased 2.6% (or \$89.7 million) compared to a year earlier.

Despite a 6.0% (or \$7.9 million) decline in notes and coins in circulation during the quarter, the sector's domestic deposit base rose by 1.7% (or \$57.3 million) continuing the growth trend in money supply.

The total market capitalisation of the Bermuda Stock Exchange (BSX) (excluding funds) was \$289.0 billion at the end of Q1-2016, down \$60.2 billion from \$349.2 billion recorded in Q4-2015.

This decrease was primarily due to changes in the trading values of several large, international companies. Total trading volume in Q1 was 2,733,142 shares (down from 6,256,102 shares in the previous quarter), with a corresponding total market value of \$6.4 million (down from \$22.9 million in Q4 2015). At the end of Q1-2016, the market capitalisation of Insurance-Linked Securities (ILS) on the BSX stood at \$19.0 billion, representing 72.0% of the global stock of outstanding ILS deals. Global market capitalisation of ILS rose to \$26.5 billion, as \$2.2 billion in new issuances outpaced \$2.1 billion in maturing bonds during the quarter.

Bermuda's (re)insurance industry remained profitable, despite downward pressure from low investment returns and increased losses.

Even with a lack of significant catastrophe losses, Bermuda's insurance sector recorded higher losses during the quarter compared to Q1-2015. (Re)insurers generated positive gross profits of \$1.2 billion, 16.5% lower than amounts reported by (re)insurance groups a year ago. The aggregate combined ratio also rose 3.6% to 88.3% when compared to same period last year (85.4%). The ongoing

state of the global economy, combined with low interest rates, continued to impact investment yields. The investment portfolio of Bermuda's (re)insurance groups generated low returns compared to a year earlier, as Return on Investments (RoI) and RoE declined to 0.5% and 2.2%, respectively.

Against the backdrop of weakening global economic growth, the US economy emerged as a source of stable and steady growth while Bermuda's economy slowly regained traction. The US Federal Reserve acknowledged global uncertainty was a factor in its decision to delay further interest rates hikes, stalling a well-telegraphed phase of tightening in policy rates that began in December 2015. Elsewhere, central banks provided additional quantitative easing and lowered interest rates. Growth in the advanced economies is projected to rise modestly in 2016, supported by accommodative monetary policies, stronger private consumption, strengthening labour markets and lower oil prices. By comparison, growth in emerging markets and developing economies, which account for 70.0% of global growth, slowed for the fifth consecutive year and continue to be adversely impacted by falling oil and commodity prices, along with a declining global trade. The Bermuda economy has started to show increasing signs of recovery as Gross Domestic Product (GDP) has accelerated for four consecutive quarters.

Market Analysis and Quarterly Statistics

A) BERMUDA MONEY SUPPLY

The banking sector's money supply rose by **1.6% (or \$56.2 million)** despite notes and coins in circulation having declined by **5.9% (or \$7.9 million)** during the quarter. A rise in deposit liabilities was the main driver of the money supply increase having risen by 1.7% (or \$57.3 million) over the prior quarter. When compared to a year earlier, the overall money supply rose by 2.6% (or \$89.7 million) as deposit liabilities rose by 2.6% (or \$87.4 million) from a year earlier.

Bermuda Money Supply

(BD\$ mln)	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Notes & Coins in Circulation*	125	133	124	122	118	127
Deposit Liabilities	3,416	3,359	3,333	3,340	3,329	3,259
Total	3,541	3,492	3,457	3,462	3,447	3,386
Less: Cash at Banks and Deposit Companies	38	45	38	36	33	44
BD\$ Money Supply	3,503	3,447	3,419	3,426	3,414	3,342
% Change on Previous Period	1.63%	0.84%	-0.22%	0.36%	2.14%	-0.93%
% Change Year-on-Year	2.63%	3.14%	1.33%	2.02%	-1.91%	-2.34%

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)	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Deposit Liabilities	3,416	3,359	3,333	3,340	3,329	3,259
Less:						
Loans, Advances and Mortgages	(3,915)	(3,971)	(3,975)	(4,125)	(4,188)	(4,255)
Surplus/(deficit) Deposits	(499)	(611)	(643)	(785)	(859)	(996)
Percentage of Deposit Liabilities Loaned	114.6%	118.2%	119.3%	123.5%	125.8%	130.6%

Totals may not add due to rounding.

The deficit continued to decline during the quarter, down 18.4% (or \$112.6 million) as a reduction in loan balances was offset by growth in the sector's deposit base. As a result, the loan-to-deposit ratio fell from 118.2% to 114.6%. The improvement in the ratio was the result of 1.7% (or \$57.3 million) growth in domestically denominated deposit liabilities while the domestic loan book fell 1.4% (or \$55.3 million). In comparison to a year earlier, the movement within the ratio was amplified largely by a 6.5% (or \$272.7 million) decline in the sector's loan portfolio. Conversely, deposit liabilities were up 2.6% (or \$87.4 million) from a year earlier.

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

(BD\$ mln)	Q1-2016	Q4-2015	Q3-2015*	Q2-2015	Q1-2015	Q4-2014
Total Foreign Currency Assets	19,904	19,715	19,009	20,091	19,459	18,349
Less: Other Assets	162	183	201	212	218	239
Less: Foreign Currency Loans to Residents	1,089	999	944	825	873	804
Net Foreign Currency Assets	18,653	18,533	17,864	19,054	18,368	17,306
Foreign Currency Liabilities	18,239	18,313	17,644	18,804	18,166	17,256
Add: BD\$ Deposits of Non-Residents	155	116	193	174	172	172
Net Foreign Currency Liabilities	18,394	18,429	17,837	18,978	18,338	17,428
Net Foreign Currency Position	259	104	27	76	30	(121)

Totals may not add due to rounding.

*Restated

The net foreign currency position continued to hold within positive territory during the first quarter of 2016, improving by \$154.0 million influenced largely by growth in foreign currency assets which rose by 1.0% (or \$189.0 million). Foreign currency liabilities declined 0.4% (or \$74.0 million) offsetting domestic denominated deposits of non-residents which grew 33.9% (or \$39.0 million).

C) BANKING

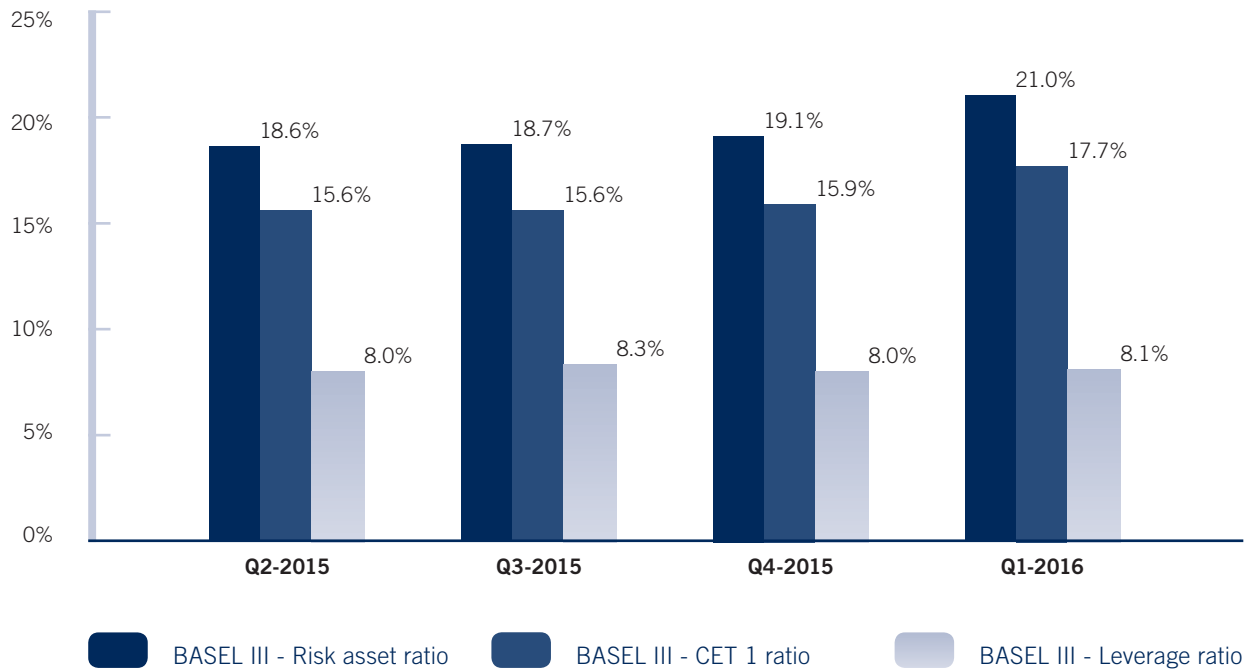
Banking Sector Assets and Deposits

(BD\$ mln)	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Total Assets	24,206	24,072	23,416	24,631	24,097	23,078
Quarterly Change (%)	0.6%	2.8%	-4.9%	2.2%	4.4%	4.4%
Total Deposits	21,275	21,365	20,662	22,052	21,378	20,347
Quarterly Change (%)	-0.4%	3.4%	-6.3%	3.2%	5.1%	8.0%

The sector's asset base rose by 0.6% (or \$134.0 million) despite creditor deposits declining by 0.4% (or \$89.0 million) during the period. Asset growth was driven by an uptick in other liabilities, up some \$164.0 million – loans also grew by 2.9% (or \$267.0 million). In regards to currency shifts, much of the growth was experienced in non-domestic currencies. When compared to a year earlier, deposit liabilities decreased by 0.5% (or \$103.0 million) while total assets climbed by 0.5% (or \$109.0 million).

Basel III Ratios

The sector's risk asset ratio under Basel III rose from 19.1% to 21.0% during the first quarter of 2016.



RAR	Period	Tier I RAR	RAR Change
21.0%	Q1-2016	17.7%	1.9%
19.1%	Q4-2015	15.9%	0.4%
18.7%	Q3-2015	15.6%	0.1%
18.6%	Q2-2015	15.6%	n/a

Basel III adoption became effective 1st January 2015 with a phasing-in period for capital requirements commencing from 2016 to 2019 (full implementation). Basel II reporting was discontinued from 1st January 2016.

Beginning 1st January 2016, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 70.0%, an increase from 60.0% (2015 requirement). A fully phased-in LCR minimum of 100.0% will be in place by 1st January 2019.

As of 1st January 2016, all banks were required to hold additional capital until 1st January 2019 due to the phasing-in of the Capital Conservation Buffer (CCB). This year the phase-in requirement is 0.6% which resulted in the minimum CET 1 ratio increasing from 4.5% to 5.1%. The 2019 fully phased-in CCB will be 2.5%.

The sector's capital position stays strong under the new Basel III standards. Capital adequacy levels remain well above the minimum regulatory requirements. The Basel III Risk Asset Ratio (RAR) increased from 19.1% to 21.0%, while the CET 1 ratio rose from 15.9% to 17.7% during the quarter. The leverage position under Basel III also increased slightly from 7.4% to 7.6%.

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

(BD\$ mln)	Q1-2016			Q4-2015			Q3-2015		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	78	38	40	81	45	36	82	38	44
Deposits	3,750	30	3,720	3,813	25	3,788	4,919	21	4,898
Investments	10,338	35	10,303	10,425	39	10,386	9,185	40	9,145
Loans & Advances	9,340	3,802	5,538	9,073	3,862	5,211	8,520	3,919	4,600
Premises & Equipment	348	236	112	406	294	112	425	304	121
Other Assets	353	161	192	274	92	183	285	84	201
Total Assets	24,206	4,302	19,904	24,072	4,357	19,715	23,416	4,406	19,009
Liabilities									
Demand Deposits	11,372	1,130	10,242	11,668	1,049	10,619	11,101	1,021	10,080
Savings	7,060	1,536	5,524	6,493	1,489	5,004	6,035	1,487	4,548
Time Deposits	2,843	741	2,102	3,204	799	2,405	3,526	802	2,723
Sub Total - Deposits	21,275	3,407	17,868	21,365	3,337	18,028	20,662	3,311	17,351
Other Liabilities	731	360	371	567	281	286	585	291	293
Sub Total - Liabilities	22,006	3,767	18,239	21,931	3,618	18,313	21,247	3,602	17,644
Equity & Subordinated Debt	2,199	1,839	361	2,141	1,797	344	2,169	1,793	376
Total Liabilities and Capital	24,206	5,606	18,600	24,072	5,415	18,657	23,416	5,395	18,021

(BD\$ mln)	Q2-2015			Q1-2015			Q4-2014		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	76	36	40	70	33	36	76	44	32
Deposits	5,891	40	5,851	5,332	48	5,284	5,281	27	5,254
Investments	9,277	58	9,219	9,431	51	9,380	8,641	52	8,590
Loans & Advances	8,665	4,017	4,648	8,496	4,081	4,415	8,291	4,146	4,145
Premises & Equipment	431	309	121	444	318	126	453	365	89
Other Assets	291	79	212	325	107	218	335	96	239
Total Assets	24,631	4,540	20,091	24,097	4,638	19,459	23,078	4,729	18,349
Liabilities									
Demand Deposits	12,151	1,021	11,130	11,393	1,002	10,391	10,540	879	9,662
Savings	6,199	1,495	4,704	6,395	1,503	4,892	6,038	1,486	4,552
Time Deposits	3,702	803	2,899	3,589	813	2,776	3,768	838	2,930
Sub Total - Deposits	22,052	3,320	18,733	21,378	3,319	18,059	20,347	3,203	17,144
Other Liabilities	400	329	71	392	285	107	430	318	112
Sub Total - Liabilities	22,453	3,649	18,804	21,770	3,604	18,166	20,777	3,521	17,256
Equity & Subordinated Debt	2,178	1,829	349	2,327	1,935	392	2,301	1,928	373
Total Liabilities and Capital	24,631	5,478	19,153	24,097	5,539	18,558	23,078	5,449	17,629

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

D) BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX (excluding funds) was \$289.0 billion at the end of Q1-2016, down \$60.2 billion from Q4-2015, due primarily to variations in the trading values of numerous international companies. Total trading volume in the first quarter was 2,733,142 shares (down from 6,256,102 shares in the previous quarter), with a corresponding total market value of \$6.4 million (down from \$22.9 million in Q4-2015). The valuation of domestic firms constituted 0.6% of the total market, with capitalisation amounting to \$1.7 billion, down \$119.9 million from the previous quarter.

At the end of Q1-2016, the market capitalisation of Insurance Linked Securities (ILS) on the BSX stood at \$19.0 billion, representing 72.0% of the global stock of outstanding ILS deals. At quarter-end, a total of 79 ILS deals (comprising 104 tranches) were listed on the BSX, with an aggregate nominal value of approximately \$19.0 billion, of which \$1.1 billion (or 6.0%) was attributable to six ILS deals (comprising six classes) originated by Special Purpose Insurers (SPIs) domiciled outside Bermuda. Global market capitalisation of ILS rose to \$26.5 billion, as \$2.2 billion in new issuances outpaced \$2.1 billion in maturing bonds during the quarter.

Selected Stock Market Performance Indicators*

In % unless indicated otherwise

	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Price Return^{1/}						
BSX	-3.29	2.43	0.81	-4.35	0.00	-0.72
BSX - Insurance	0.20	1.88	-0.27	0.64	0.42	1.35
DJII	-0.31	2.43	-3.03	-0.01	0.34	1.32
Return Volatility						
Annualised Standard Deviation^{2/}						
BSX	3.60	3.14	2.65	1.69	2.28	3.27
BSX - Insurance	2.25	2.23	1.64	1.55	1.59	1.97
DJII	3.50	2.83	2.44	2.08	2.11	1.98
Normalised Squared Returns (in standard deviations) ^{3/}						
BSX	0.83	0.92	0.10	2.09	-0.11	-0.26
BSX - Insurance	-0.02	0.06	-0.02	-0.11	-0.07	-0.10
DJII	5.90	1.97	0.82	-0.59	-0.42	0.92
Trading Volume/Market Capitalisation^{4/}						
BSX	0.37	0.25	0.24	0.37	0.37	0.38
DJII	9.33	8.92	9.49	7.62	7.66	7.22
Real Dividend Yield^{5/}						
BSX	2.23	1.89	1.83	1.43	1.70	1.43
DJII	1.60	2.02	2.35	2.32	2.29	0.94

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

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

Notes:

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 the six-month moving 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 negative during the quarter. The table (p.9) provides a summary of selected indicators of stock market performance over the last six quarters (Q4-2014 to Q1-2016) comparing the recent development of the BSX to that of the Dow Jones Industrial Average (DJIA) 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 negative return of 3.3% (down from positive 2.4% in Q4-2015) amid higher annualised volatility of 3.6% (up from 3.1% in Q4-2015), while trading volume rose to 0.4% of market capitalisation. Along with deterioration in its risk-return trade-off, the BSX index underperformed global standards, relative to the DJIA, which recorded a lower quarterly return of negative 0.3% (down from positive 2.4% in Q4-2015) amid higher annualised return volatility of 3.5% (up from 2.8% in Q4-2015). The risk-return trade-off was more favourable for the insurance sub-index (BSX-Insurance). The total return performance was 0.2% during the quarter (down from 1.9% in Q4-2015), while volatility modestly rose to 2.2% (up from 2.2% in Q4-2015).

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 Q1-2016 (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 the first time since Q4-2014. The aggregate dividend yield of stocks listed on the BSX over the last quarter stood at 2.2% (up from 1.9% in Q4-2015) after adjusting for headline inflation, which was higher than comparable yields generated by stocks included in the DJIA (at 1.6%). At the same time, the annualised return volatility (as a measure of risk) was modestly higher than that of the DJIA (and above the average over the last four years, as indicated by the positive value of normalised squared returns in the table below).

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

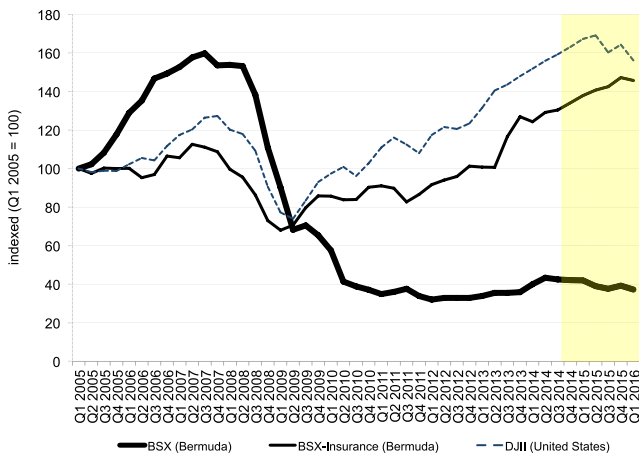


Chart 2. Annualised Return Volatility

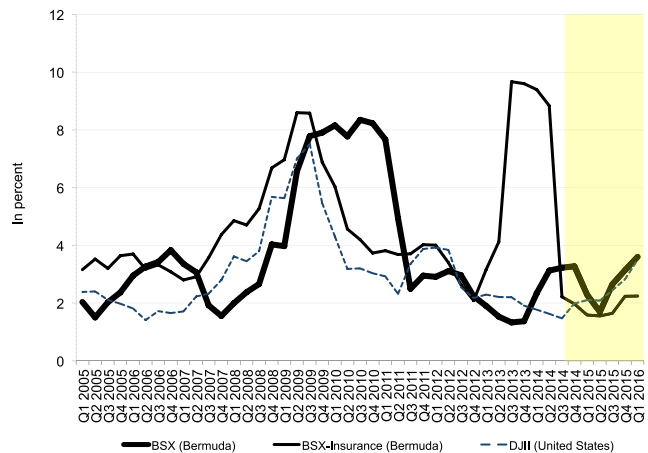


Chart 3. Dividend Yield (nominal and inflation-adjusted)

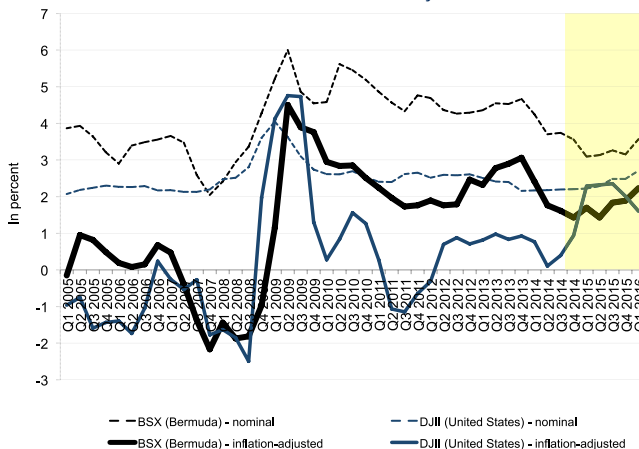
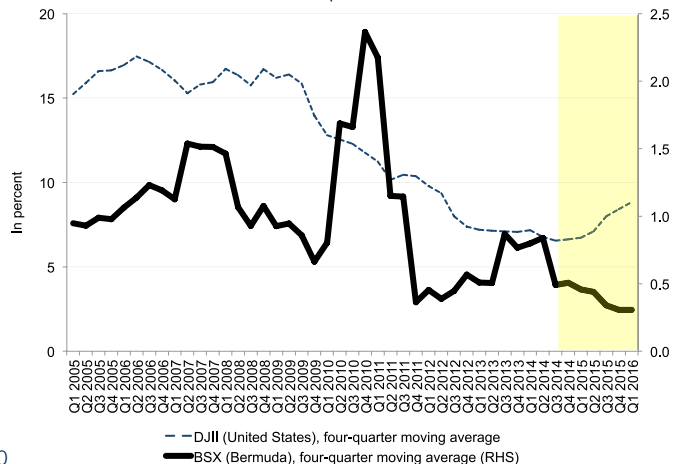


Chart 4. Ratio Between Trading Volume and Market Capitalisation



E) INVESTMENT FUNDS

Investment Fund Statistics

	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Mutual Funds	419	429	434	434	433	438
Umbrella Funds	37	38	39	39	38	38
Segregated Accounts Companies (SAC)	68	69	70	69	69	70
Unit Trusts	43	52	50	49	50	54
Umbrella Trusts	29	36	37	37	37	47
Total Number of Funds	596	624	630	628	627	647
Net Asset Value (in US\$ bln)	\$150.19	\$144.22	\$145.06	\$152.57	\$166.65	\$164.82

During the period Q4-2015 to Q1-2016, Net Asset Value (NAV) experienced a slight increase of 4.1% (or \$5.97 billion) from \$144.2 billion to \$150.2 billion, largely due to the inclusion of the Class A and Class B Exempt annual filings which are due on or before 30th June each year. Total funds decreased by 28 from 624 to 596, largely as a result of unit trust terminations and liquidations at the year end.

F) COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Exempted Companies (Bermuda companies exempted from the 60.0% Bermudian ownership requirement)	238	329	198	212	222	283
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	28	38	17	36	18	31
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	8	5	2	2	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	3	3	13	11	6	12
Unit Trusts	2	2	1	0	1	2
Total Applications Approved*	272	380	234	261	249	328

* 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 (Q1-2016)

During the quarter, the Authority registered eight insurers and nine intermediaries. This compares to 14 insurers and five intermediaries registered during Q1-2015.

Name	Date	Type
Registrations in January 2016		
CAPRI Re Ltd.	1-Jan-16	SPI
Tokio Solution Management Ltd.	4-Jan-16	Broker
Old Mutual (Bermuda) Holdings Ltd.	8-Jan-16	Manager
Nomura Americas US Re Ltd.	21-Jan-16	D
Intrepidus Insurance Services (Bermuda) Limited	26-Jan-16	Broker
Registrations in February 2016		
Sun Life Financial (Bermuda) Reinsurance Ltd.	1-Feb-16	3A
Granite Management Limited	1-Feb-16	Broker
Aon Underwriting Managers (Bermuda) Ltd.	16-Feb-16	Agent
Akibare Re Ltd.	29-Feb-16	SPI
Registrations in March 2016		
Global Policy Brokers Ltd.	8-Mar-16	Broker
All Insurance Management Limited	10-Mar-16	Agent
CFC Insurance Ltd.	10-Mar-16	3A
Sura Re Ltd.	18-Mar-16	3A
Essent Agency (Bermuda) Ltd.	18-Mar-16	Agent
Andes Re Limited	18-Mar-16	1
London American Managers Ltd.	28-Mar-16	Broker
EOS Re Ltd.	30-Mar-16	3
Total Registrations		
Insurers: 8	Intermediaries: 9	

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 Q1-2016)

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 2016 recorded higher losses for large commercial Bermuda (re)insurance groups¹ compared to Q1-2015 and the combined ratio increased by 3.6% q/q². The absence of catastrophic or other significant events impacted loss developments over the past few quarters.

Monetary policy remains an important economic variable in (re)insurance since it drives investment yields and financial disintermediation from traditional reinsurance to the securitised risk markets.

In the catastrophe (cat) bond market, net issuance volume in Q1-2016 increased by \$100.0 million, while the global outstanding volume reached \$26.5 billion.

Bermuda (re)insurance groups increased their asset base by 6.3% q/q. Despite increased claims, Bermuda (re)insurers produced a positive gross profit of \$1.2 billion, which was lower by 16.5% q/q due to higher losses, increased expenses and lower investment income. The aggregate combined ratio stood at 88.3% compared to 85.4% in Q1-2015. The loss ratio increased by 3.4% q/q due to higher losses while the expense ratio increased by 3.7% q/q. Investment income represented 43.6% of net income an increase by 66.9% from Q1-2015. The main reason for the increase in the ratio is the reduction of the aggregate net income due to one company in our sample reporting a rather low net income.

Reserve leverage remained almost unchanged and financial leverage increased by 0.6% q/q. Total equity increased by 5.6% q/q while reserves increased by the same amount, thus leaving the reserve leverage unchanged. The marginally faster increase of assets compared to equity marginally increased the financial leverage. Net Written Premiums to Equity, which is a very rough inverse measure of solvency, dropped by 3.5% q/q reaching 55.2%.

The investment portfolios of Bermuda (re)insurance groups produced a low Return on Investment (RoI) close to 0.5%, a decrease of 17.3% q/q. RoE dropped significantly due to lower net income by 33.7% q/q. As a proxy for liquidity, the sum of cash and high quality “AAA”-rated securities represents 205.3% of claims for Q1-2016, a decrease of 4.5% 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., Q4-2015 and Q4-2014.

Table 1. Select Financial Soundness Indicators (FSIs)*

<i>(In % unless indicated otherwise)</i>	2016	2015				2015	2014	Change (%)	
	Q1	Q4	Q3	Q2	Q1	FY	FY	QoQ	YoY
Capital Adequacy and Asset Quality									
Assets (In US\$ bln)	140.1	133.8	137.4	134.5	131.8	133.8	125.0	6.3	7.3
Reserves to Assets (Reserve Ratio)	53.4	52.6	53.2	54.4	53.8	52.6	53.8	-0.7	-2.4
Reserves to Equity (Reserve Leverage) ^{1/}	160.3	154.4	164.2	168.2	160.4	154.4	157.8	0.0	-1.3
Assets to Equity (Financial Leverage) ^{2/}	300.3	293.7	308.5	309.5	298.4	293.7	293.4	0.6	1.2
Net Written Premiums to Equity ^{3/}	55.2	55.5	56.8	58.1	57.3	55.5	59.9	-3.5	-6.5
Profitability and Actuarial Issues									
Gross Profit (excl. capital gains) (In US\$ bln)	1.2	1.3	1.2	1.1	1.4	5.0	5.4	-16.5	-8.3
Investment Income to Net Income	43.6	63.2	148.1	130.4	35.3	66.9	38.6	22.6	73.2
Combined Ratio	88.3	86.8	88.8	91.2	85.4	88.1	85.9	3.6	2.5
Average Claims to Reserves ^{4/}	2.3	2.5	2.3	2.3	2.3	2.4	2.3	-1.9	-4.5
Return on Equity	2.2	1.8	0.7	0.9	3.3	6.5	11.9	-33.7	-45.1
Return on Investment	0.5	0.6	0.5	0.6	0.6	2.2	2.3	-17.3	-3.6
Cash and "AAA" Assets to Claims ^{5/}	205.3	210.4	201.3	197.0	214.9	207.6	201.2	-4.5	3.2

Source: the 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.

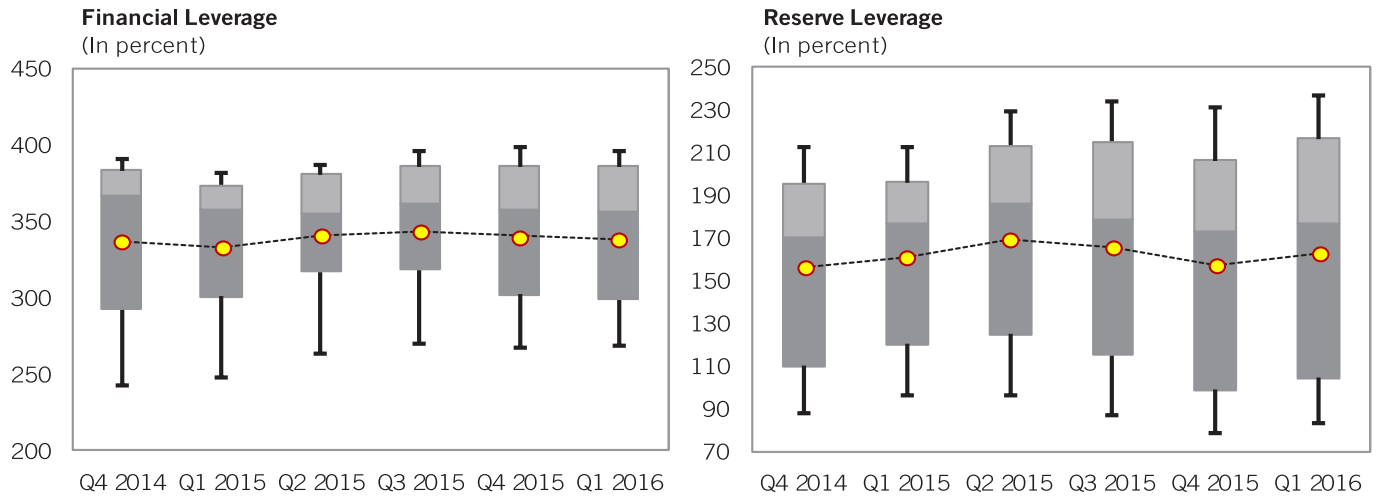
3/ The quarterly values contain the cumulative amount of Net Written Premiums over the last four quarters as numerator.

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.

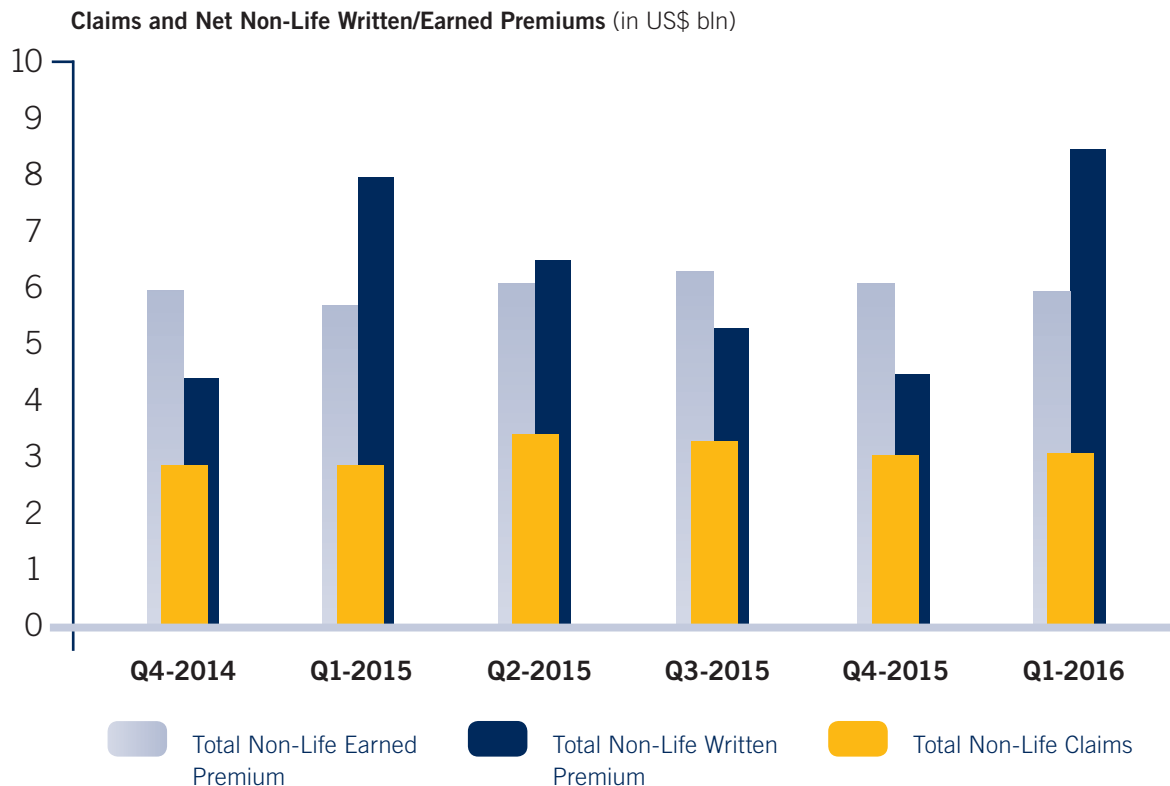
* Due to mergers the current table is not directly comparable to the previous Regulatory Update tables.

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 (Q4-2014 to Q1-2016)



Source: the Authority staff calculations.

Regulatory and Legislative

SUPERVISION

Bermuda Achieves Full Equivalence with EU's Solvency II Directive

Following a multi-year effort, the European Commission's delegated decision on Bermuda's equivalence with Solvency II was presented in the Official Journal of the European Union (EU) on 4th March. Bermuda's full equivalence status was considered final on 24th March, 20 days after the date of publication in the Journal. The decision was hailed by industry as an extremely important milestone, cementing Bermuda's position as a pre-eminent global (re)insurance centre. Full equivalence meant Bermuda's commercial (re)insurers and insurance groups would not be disadvantaged when competing for, and writing, business in the EU. By design, Bermuda's captives were left out of scope of Europe's Solvency II assessment and so do not have to adhere to the Authority's enhanced commercial regime.

European Regulators Assess Bermuda for Possible AIFM Passport

During Q1-2016, the European Securities and Markets Authority (ESMA) continued its assessment of Bermuda in relation to the extension of an Alternative Investment Fund Managers (AIFM) passport to Bermuda. As part of the assessment, the Authority launched a data call on 16th March regarding the nature, scale and cross-border scope of Bermuda's investment fund manager/funds market – particularly into the EU from Bermuda and vice versa. ESMA's recommendation is expected by the end of July 2016.

Authority Consults on Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) Guidance Notes

In February, the Authority issued AML/ATF Guidance Notes to be followed by all regulated financial institutions in Bermuda. The Guidance Notes were revised to take on board the Financial Action Task Force's (FATF) revised 40 recommendations and changes to Bermuda's AML/ATF Regulations that came into force on 1st January 2016. Areas covered include: interpreting and applying the Proceeds of Crime Act 1997 and the Proceeds of Crime (AML/ATF) Regulations 1998 as well as anti-terrorist sanctions and legislation; creating a risk assessment that takes into account threats and vulnerabilities; interpreting risk ratings of domestic Politically Exposed Persons (PEPs); producing an annual independent audit; and appointing compliance officers from senior management. The Authority invited comments from all stakeholders and the consultation period was 30 days, ending 1st March 2016.

Corporate Governance Policy Issued for Corporate Service Providers

Also in February, a corporate governance policy was issued in advance of the pending launch of the Authority's Corporate Service Provider (CSP) regulatory regime. An initial version of the policy was issued to industry for consultation during the summer of 2015 and input was provided from a number of sources.

Amendments Made to Insurance Legislation, Rules and Regulations

In January, proposed amendments to the Insurance Act 1978 progressed in 2015 took effect. These changes included requirements under Economic Balance Sheet, new requirements related to commercial insurers maintaining head offices in Bermuda, declarations of compliance, and notifications by shareholder controllers of disposal of shares in public and private companies. In addition, revisions to Prudential Standards and Solvency Requirement Rules relating to commercial (re)insurers, i.e., Class 3A, 3B, 4, C, D and E insurers, and Bermuda Groups and the Insurance Accounts Regulations took effect from the first of January for financial years beginning on or after 1st January 2016.

In March, the Authority brought into operation amendments to Insurance Prudential Standards Insurance Group Solvency Requirements, concentrating on changes to the instructions for completing Schedule V of the Bermuda Capital and Solvency Return (BSCR). Amendments to the Insurance (Prudential Standards) Rules, focusing on Classes 3A, 3B, 4, C, D and E were published on the same day.

Finally, the Authority published Insurance Accounts Rules which apply to commercial insurers. These Rules relate to the preparation of Statutory Financial Returns/Statements, describing requirements for completing the Insurer Information Sheet and the minimum margin of solvency/minimum liquidity ratio for general business, and minimum margin of solvency for Long-Term (life) business.

INTERNATIONAL

In February, the Authority attended the Financial Action Task Force (FATF) Plenary in Paris to discuss Anti-Terrorist Financing and the impact of aligning the definition of Recommendation 5 with United Nation (UN) Security Council Resolutions. Other matters for discussion included correspondent banking, Money Value Transfer

Services, and information sharing between authorities and the private sector.

Also in February, the Authority met with the UN's Office for Disaster Risk Reduction in London to discuss Bermuda's involvement in the implementation of the Sendai Framework for Disaster Risk Reduction.

In March, the Authority travelled to Europe to meet with European Insurance Supervisory Authorities, including Autorité des Marchés Financiers (French), Finansinspektionen (Swedish), BaFin (German), Dirección General de Seguros (Spanish), as well as the European Insurance and Occupational Pensions Authority (EIOPA) and various regional insurance lobbying groups. The purpose of the trip was to enhance the Authority's relationship with equivalent supervisors and promote Bermuda's full Solvency II equivalence status. Discussions were also held around supervisory collaboration, industry practices, implementation issues and future challenges.

On 15th March, a delegation of experts from the Bermuda Business Development Agency (BDA), industry and the Authority participated in a captive road show in Atlanta, Georgia to explain how to incorporate a captive insurer in Bermuda. A second captive roadshow was held in Raleigh, North Carolina on 17th March. In addition, the Authority appeared on a panel entitled 'Ask a Regulator? Everything You Wanted to Ask Captive Regulators But Didn't Dare' at the 2016 World Captive Forum in Boca Raton, Florida.

OTHER

For the first time since November 2014, the Authority hosted meetings of the International Association of Insurance Supervisors (IAIS) in Bermuda. A meeting of the IAIS Macroprudential Policy and Surveillance Working Group was held on 17th – 18th February at BMA House. Then on 1st – 2nd March, the Authority hosted a meeting of the IAIS Macroprudential Surveillance and Reinsurance Expert Team. Discussions revolved around the self-assessment and peer review of Insurance Core Principles 13 and 24. The Authority also hosted a meeting of a joint World Bank/IAIS Index-based Insurance Drafting Group on 8th – 10th March.

Over 80 external stakeholders attended an Executive Briefing at the Hamilton Princess on 23rd March 2016 to discuss highlights of the Authority's 2016 Business Plan. Topics covered in a panel made up of Authority experts included: the post-Solvency II equivalence regulatory environment; the vital significance of the 2018 AML/ATF assessment by the Caribbean Financial Action Task Force; an upcoming Corporate Service Provider licensing process; and banking intervention powers.

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.

BERMUDA MONETARY AUTHORITY

BMA House ■ 43 Victoria Street ■ Hamilton HM 12 Bermuda
P.O. Box HM 2447 ■ Hamilton HM JX Bermuda
tel: (441) 295 5278 ■ fax: (441) 292 7471
email: enquiries@bma.bm ■ website: www.bma.bm

