



# MOVING FORWARD TOGETHER!

## Series 2: Bermuda's Boom Time

### Bermuda's Boom Time

*As the Bermuda Monetary Authority (BMA) celebrates 50 years in 2019, we take a look back at the last five decades. From providing sound policy advice to pushing Bermuda forward as a reputable place to conduct business, the BMA has had an incredible impact on Bermuda's financial landscape.*

One of the Bermuda Monetary Authority's (BMA) guiding principles has always been to create a secure and stable financial environment in Bermuda, whilst ensuring that Bermuda remains an attractive domicile to conduct local and international business. Over the past 50 years, the BMA has met the changing needs of the financial services sector on a local and global scale. It would be an understatement to say that the past five decades have been interesting, but one thing has held true: change is constant. A few recurring indicators of the BMA's stable influence over the past five decades are the Authority's ability to adapt to ever-changing needs; its steadfast application of exemplary standards and consistent regulation; and the organisation's perpetual motion which identifies avenues of regulatory best practices that are beneficial for the Bermuda market and elsewhere.

#### 1980-1989

Establishing 'Beneficial Ownership'

#### Vetting Companies Doing Business in Bermuda

As the Bermuda Monetary Authority moved into its second decade, it had become fully responsible for vetting applications to incorporate companies as an agent for the Minister of Finance. This responsibility would see the BMA establish rigorous 'Beneficial Ownership' policies that would solidify the Island's reputation as a prudent international financial service centre. International Business was booming by 1980, ranked second only to the tourism industry in importance to Bermuda's economy. The number of companies registered in Bermuda increased by 52.8 percent between early 1976 and the end of 1980. The Island also saw a boom in construction projects for the creation of office space in Hamilton. From early on, the BMA had introduced a level of scrutiny for companies wanting to set-up and do business from or in Bermuda and was very much a leader in having a 'know-your-customer' regime in place in the early 1980s.

Former Finance Minister Bob Richards, who worked at the BMA until 1983, recalls that Bermuda was unique as a jurisdiction because of its company vetting policy.

"Our forbearers in Bermuda wanted to know whom the beneficial owners of companies were going to be. They required disclosure on persons behind companies and whether they were good guys or crooks?"

Appointed in 1984, Ms. Lucelle Cooke was the BMA's first female General Manager and Controller of Foreign Exchange. She had previously worked as Assistant Financial Secretary at the Ministry of Finance under Finance Minister David Gibbons, who quit the post and was named Chairman of the Authority that same year. She recalls there were "rules in place and everything was done according to those rules, so it was fairly straightforward" for incorporating businesses.

"One of our main jobs was monitoring what kind of businesses applied to set-up on the island. We had to vet their intended activities and owners to make sure they weren't involved in organised crime, which was our biggest threat at the time," she recalls.

#### Exchange Control Dominated Operations

During the 1980's, Bermuda still maintained a stringent Exchange Control regime, even though UK Prime Minister Margaret Thatcher had abolished Exchange Control in the UK almost overnight in 1979.

Mr. Richards recalls plans that had been made for him by the Controller of Foreign Exchange, Mr. Malcolm Williams, to travel to the Bank of England as "Bermuda had a mini version of Exchange Control of what they had in London."

However, overnight, "everyone who was working in Exchange Control in the UK, which at that time had to have been hundreds of people, had all been let go," he remembers.

Ms. Marcia Woolridge-Allwood, who joined the Authority in 1986 as Manager, Exchange Control, recalls that the rigid controls "required all residents to secure permission from the Bermuda Monetary Authority, or the banks under the



Merlyn N. Trued, BMA Managing Director and Bob Richards, General Manager attending an Annual General Meeting of the Bank for International Settlements in Basel, Switzerland.

Controller's delegated authority, to purchase foreign currency for current payments or capital payments."

She remembers, "When I joined the Bermuda Monetary Authority, the Authority's Exchange Control activities dominated the operations of the Authority and, in addition, we compiled the balance of payments statistics, conducted vetting and made recommendations for the incorporation of companies and granted permission for the issue and transfer of shares to non-residents for exchange control purposes."

Ms. Maureen Smith, who worked at the old Foreign Exchange Control Department which merged with the BMA in 1974, and was one of the BMA's longest-serving employees, recalls that throughout the 80s exchange control allowed the Controller, in consultation with the Minister of Finance, to make changes to foreign currency allowances for residents depending on the financial climate at the time.

In 1981, the annual foreign currency overseas investment allowance of \$25,000 was broken down into four quarterly allowances of \$6,250, which remained in effect throughout the first half of that year. It was an attempt to spread the impact of capital outflows over the entire year due to increased international interest rates. It was lifted in the second half of 1981, as the rest of the year showed declining international interest rates. Exchange Control would see restrictions placed on allowances throughout the decade to curtail the deterioration of Bermuda's Balance of Payments. By the end of the decade, recommendations had been made to the then Minister of Finance David Saul, to begin a phased relaxation of Exchange Control. However, the deterioration of Bermuda's Balance of Payments persuaded the Minister that the time was not right for relaxation to take place.

Ms. Smith notes that with the tighter restrictions in 1989, the Minister, with backing from the then Controller of Foreign, Anthony Goodfellow, reductions were announced in personal travel and cash gifts allowances from \$5,000 to \$3,000.

#### Improved Statistics for Policy Decisions

The BMA realised it needed to develop a better method for calculating the Balance of Payments estimates, as the more accurate statistics would allow for a more meaningful and certain guide to policy decisions. The BMA also noted, in 1982, that the characteristics of a legitimate financial centre were the development of a satisfactory system of reliable and current statistics. The form filled out by customers at banks to purchase foreign currency were the prime source of information at that point. In 1982, the BMA had hired a consultant to undertake the task of determining the organisation's computer requirements, and by 1984, an IBM PC was acquired, which quickly improved the productivity of processing the Form E data coming from the banks. The BMA handled 121,000 Forms E in 1985 – the ability to process such a volume at a greater speed was invaluable.

The daily processing of the data from the forms, says Ms. Smith, gave the BMA a better understanding of when

restrictions needed to be made because it could "immediately recognise any irregularities or contraventions by individuals or firms of the Exchange Control Regulations."

Having more accurate Balance of Payments was also key. In 1985, an amendment to the Bermuda Monetary Authority Act broadened the role of the BMA to advise the Government and public bodies on banking and monetary matters and also permitted the BMA to act as investment manager for Government.

Mr. Peter Sousa, who joined the Authority as an investment officer in 1986, said being able to "properly track the inflows and outflows in our economy meant that policy decisions being considered wouldn't be made in a vacuum."

The implications of the decisions had knock-on effects whether it be relaxing Exchange Control or amending interest rate policies.

#### An Important Player in the Global Financial Sector

Relationships were built between the BMA and international institutions during this period, including the International Monetary Fund, Federal Reserve Bank of New York as well as major US banks and central banks in other countries. The connections allowed for staff to take part in various international training programmes. Exposed to international monetary, financial and management techniques practised worldwide, staff could better apply the research and recommendations for Bermuda's policies.

As the world became more globally connected, by the latter part of the decade banking supervision began to change rapidly. Interdependence of banks worldwide meant an increasing need for improved supervision and the development of common international standards.

With these expanded changes and the need for a broader supervisory role, further computerisation took place at the BMA. This automation allowed for greater data storage based on the statistical information being passed on by local banks and deposit companies. These enhancements at the end of 1989 gave the BMA's Supervisory Division the ability to produce more sophisticated analytical profiles of those supervised institutions.

In 1988, at the meeting of central bankers in Basel, the Basel Accord was created and provided recommendations for banking regulations in regards to the capital adequacy of financial institutions.

#### A Rich Numismatic History

Throughout the decade, the BMA issued commemorative coins marking special occasions. A formal numismatic programme was introduced in 1982 to ensure an orderly issue of currency notes, circulation coins and commemorative coins. The programme would also allow for a more reliable source for serious collectors. Numismatic offerings generated revenues for the BMA, and the programme helped to increase support on the island with growing public interest to collect commemorative items significant to Bermuda's history and special occasions.

Mr. Sousa, who eventually moved over to manage the numismatic department and also co-edited 'Coins of Bermuda' in 1997, notes the BMA's pride in its role in "helping to capture those important moments of the history of Bermuda life through its special commemorative notes and coins."

Throughout the decade, commemorative coins were issued to mark the 375th anniversary of the settlement of Bermuda; a five-year commemorative series of crown-size dollar coins featuring Bermuda historical scenes and wildlife; and a Bermuda Coinage Set to mark the first design change to Bermuda coinage since decimal coinage was introduced in 1970.

By 1988, the Authority had formed the Currency Bureau to manage the increasingly active coin and banknote operation. The new structure amalgamated responsibilities for both circulation and numismatic items into one section.

That same year, the first \$2 note was issued, as well as one cent through 50 cent coins and a new circulation dollar coin. A new series of currency notes with enhanced colours and upgraded security features was introduced in 1989 to mark the BMA's 20th anniversary.