BERMUDA: NEW HORIZONS, NEW OPPORTUNITIES

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In spring of this year, the eyes of the sporting world were collectively turned to Bermuda. The world’s fastest sailing yachts competed for the 35th America’s Cup in the Great Sound of Bermuda. The high-profile event was the culmination of years of preparation and hard work on the part of the small island territory. For Bermuda, the America’s Cup was not just a commercial feat, but also a symbolic turning point, marking a return to economic growth and opportunity.

Bermuda’s economy depends on a services sector that is vulnerable to changes in demand. Services account for almost 95% of the territory’s Gross Domestic Product (GDP), mostly in international business and tourism. This dependence and low external demand in the (re)insurance and tourism sectors had pushed Bermuda into a six-year recession.

The territory is now returning to positive growth – proof of Bermuda’s resilience. As Former Premier Michael Dunkley explains, “We are used to withstanding storms, we are used to getting back on our feet and we know how to get things done.”

In 2016, real GDP grew by 0.6%, a clear departure from the negative 2% average of the five previous years. Growth is expected to accelerate further in 2017 on the back of increased economic activity related to the America’s Cup, higher investment in the construction sector, positive growth in tourism and demand for services in the international business sector.

The government, when first elected in 2012, had promoted a two-track strategy to restore confidence in Bermuda: stimulating economic growth and controlling government spending. “The government was running huge deficits. If we did not demonstrate that we were getting our own house in order, nobody was going to have confidence in Bermuda,” explains Everard Bob Richards, Former Minister of Finance. “We have reduced the budget deficit every year and are now in the second year of a three-year plan to eliminate the deficit.”

Government, business and the regulatory authorities have been cooperating more closely, while an Economic Development Committee was established under the chairmanship of the Premier. The committee meets on a weekly basis, bringing together key ministers and senior secretaries to discuss progress on projects and make sure that investors are given all due attention and are not faced with delays.

The territory’s size plays to Bermuda’s advantage. “We are big enough to punch above our weight, but we are small enough for you to access the people needed to get things done, and get the connections you need. We are open for business,” says Former Premier Dunkley.

*This report was printed in the magazine the day of the announcement of Bermuda’s General Election results, and before the formation of a new government.*
Particular effort has gone into reviving Bermuda’s tourism sector, the territory’s second largest industry and an important employer for the islands. Bermuda’s beaches, architecture, culture, golf courses and subtropical climate have long attracted an affluent clientele. Yet the sector had suffered a steady decline, following the financial crisis and the failure to renew Bermuda’s tourism offer.

A major step in the revitalization of the sector was the establishment of the Bermuda Tourism Authority (BTA) in 2014, which was given the responsibility to market Bermuda as a destination and to manage and evolve the tourism product. The sector has since turned a corner. In 2016, the number of vacation air arrivals rose by 17%, while the associated spending increased by 18%, 76% of that increase coming from visitors under 45.

“We have found that the repositioning and the rediscovery of Bermuda by a new generation of travelers is working and that we are now able to attract and cater to younger visitors without alienating our traditional visitors,” says Kevin Dallas, CEO of the BTA. “I believe that tourism can reemerge as a much stronger pillar of the Bermudian economy. I expect that over the next 3 to 5 years our share of GDP will actually outgrow the other pillars of the economy.”

The America’s Cup positively served as a catalyst for a number of investments. Nine acres of land were reclaimed for the America’s Cup village, while renovation of the Royal Naval Dockyard created new commercial spaces. Hundreds of millions of dollars are going into new hotel developments, such as the St. Regis in St George, Reserve by Ritz-Carlton at Caroline Bay, and the recently opened The Loren, as well as renovation of the Hamilton Princess & Beach Club, and the future redevelopment of Ariel Sands.

More than $1.8 billion are earmarked to be spent on infrastructure projects over the next five years. This includes $274 million for the construction of a new terminal at Bermuda International Airport, scheduled to be completed by 2020, $100 million for the Causeway linking the airport to the mainland, and $1 billion for the development of Morgan’s Point. “The new airport will allow us to potentially become a transit hub. Considering our strategic location in the middle of the Atlantic, you can get to just about anywhere from here in a very short period of time. This opens new markets for us,” says Craig Cannonier, Former Minister of Public Works. “While Morgan’s Point and other sites offer great opportunities for further thoughtful development.”

World-class Exchange

The Bermuda Stock Exchange (BSX) plays a separate role in facilitating the continued growth of the domestic economy. It operates as a fully-electronic, offshore securities exchange platform, providing full exchange services for domestic and international securities. There are over 800 securities listed, 13 of which are domestic securities,” says Gregory Wojciechowski, CEO of the Bermuda Stock Exchange. “Our aggregate market capitalization exceeds $300 billion, while the market capitalization for the domestic market is over $2 billion.”

“The fundamental premise of the BSX is to create a solid foundation for the continued development of Bermuda’s domestic capital market. This is our primary focus,” says Wojciechowski. “We provide a mechanism for the deployment of capital and investment into the domestic capital market. This is yet another form of foreign direct investment into Bermuda’s economy.”

The BSX has also been instrumental and committed to Bermuda becoming the world leader for the creation, support and listing of Insurance-Linked Securities (ILS). In 2008, Bermuda launched a regulatory framework to support the creation of Special Purpose Insurers (SPI), the corporate risk transfer vehicles through which ILS are created. Today, a significant portion of global ILS Catastrophe Bonds are listed on the BSX. Currently, the BSX has 216 ILS vehicles listed with a market capitalization in excess of $24 billion.

“ILS is yet another example of innovation that has taken place in the industry that found Bermuda’s regulatory and legal framework, coupled with world-class infrastructure and services providers to be the perfect mix for the development and continued growth of the asset class,” says Wojciechowski.
Insurance and reinsurance remain the bedrock of Bermuda’s economy. In 2015, companies in the sector contributed 28% of Bermuda’s total GDP.

The Bermuda Monetary Authority (BMA) confirmed Bermuda to be the global leader in the captive insurance market in 2016, with more overall captives registered than any other jurisdiction. Bermuda also ranks as one of the largest reinsurance markets in the world. Bermuda-based reinsurers’ total net written reinsurance premiums exceed those of London-based reinsurers.

In 2016, after years of efforts by the BMA and public and private sector stakeholders, Bermuda was granted full equivalence in compliance with the European Commission Solvency II directive, meaning that Bermuda’s commercial (re)insurers and insurance groups would not be disadvantaged when competing for and writing business in the European Union.

The U.S. National Association of Insurance Commissioners (NAIC) also designated Bermuda and the BMA a “qualified jurisdiction”, thereby allowing cross-border reinsurance trade with the U.S.

“This bilateral recognition by the world’s two largest trading blocs ensures Bermuda’s status as one of the three leading reinsurance domiciles in the world,” says Bradley Kading, President and Executive Director of the Association of Bermuda Insurers and Reinsurers (ABIR).

Mike McGavick, CEO of the XL Group Ltd., which is headquartered in Bermuda, says, “We encourage tough regulation in insurance; it is to our own benefit. The duality of good regulation and business opportunity is unique in the world. The BMA has done a fantastic job, solvency equivalence was and has been a huge success.”

XL Group is a leading global insurance and reinsurance company that declared total assets worth $58.4 billion and total revenues of $10.5 billion in 2016. The company provides property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises world-wide, through its subsidiaries and under the XL Catlin brand.

“We rank among the 10 largest commercial insurers and among the 10 largest property and casualty reinsurers,” says McGavick. “We service the market on a global scale and we are overwhelmingly good at insuring physical things. At the same time, we are investing heavily in targeting the insurance of ideas and the transformation of global wealth.”

XL Group continues looking for opportunities to grow its global footprint. “We have been rounding out our global presence and we want to keep deepening our penetration with the world’s largest commercial enterprises. We are one of the few insurance and reinsurance companies that has the capability to serve them.”

Despite or because of this global orientation, XL Group is comfortably based in Bermuda. As McGavick explains, “You have only a few places in the world with both the capital and the underwriting talent concentrated in one place. Bermuda and London are the two places that really have that concentration.”

“This is still the best place in the world to set up an insurance company,” says Everard Bob Richards, Former Minister of Finance. “Even though Bermuda is a relatively expensive jurisdiction, we have advantages over the combination of cost and availability of expertise.”

McGavick agrees that Bermuda is the right choice for XL Group. “This is an incredibly efficient place to be. The regulator is well respected, the legal system, everything makes Bermuda ideal – we are proud to be part of it.

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