

BERMUDA, CONVERGENCE CAPITAL

A history of reinvention

Bermuda has demonstrated its ability to forge ahead and develop new trades since the island was first settled 400 years ago. Realizing that catching fish and growing tobacco was not going to sustain the island, Bermudians began to trade salt, export Bermuda onions and develop a world class tourism destination which was the launch pad for a thriving international business community. On a mere 21 square miles, 700 miles from any other landmass, Bermuda continues to reinvent itself and lead as a world class international business centre.

Since the election of the One Bermuda Alliance in December, 2012, a raft of pro-business legislation and policy changes have been instituted with the aim of supporting economic growth and turning around recessionary job losses. In an effort to create a longstanding sustainable business environment, the new Government is focused on developing new business lines and exploring new regions.

To this end, the Government established the Bermuda Business Development Agency (BDA), a public-private partnership tasked with attracting new business to the island, while sustaining existing businesses that continue to make a meaningful contribution to the economy and community overall. In an effort to make doing business easier and more efficient, BDA launched a Concierge Service which helps international businesses establish a presence in Bermuda, assisting with Government policies and procedures and engaging with the Bermuda Monetary Authority (BMA) and other key contacts within the business community.

Bermuda is also focused on maintaining its lead position as a world class domicile through modernizing its legislative framework. Recently, Bermuda implemented changes to the Investment Funds Act (IFA) which allowed for two new classes of exempted funds thereby making incorporating new funds easier, more efficient and cost effective. These changes were made possible through the collaboration of the Government of Bermuda, (BMA) and industry stakeholders. After candid discussions with key decision makers and advisors in the asset management industry, the proposed changes were drafted and put before the House for approval in October 2013. It is through ongoing dialogue with key influencers of business that Bermuda continues to enhance its product and service offerings.

The new Government also moved decisively to reform the island's immigration regime. Term limits, which were designed to discourage long term residence by non-Bermudians and had become a major area of contention, were quickly scrapped. Furthermore, to encourage new businesses to set up on the Island, companies are now entitled to five work permits for key personnel without

having to go through the process of advertising the jobs and screening local applicants.

For companies already established here, incentives for job makers have been broadened to allow for non-Bermudians who are responsible for generating and keeping jobs in Bermuda the opportunity to apply for long term residence, rights to own property and other benefits.

Companies with worldwide operations can also get global work permits for executives who may not be based in Bermuda but spend significant time here, thus reducing the need to apply for permits for individual visits.

Overall, the Government of Bermuda, with the support of the BDA is committed to creating a more business friendly environment that encourages foreign direct investment and welcomes new business to the island. Legislative reform, a balanced approach to landing rights, work permits and job creation, complimented by a well educated workforce, comprehensive support services and a world class ICT infrastructure and industry, is why Bermuda continues to be a premier domicile for international business.

Bermuda, a natural jurisdiction of choice for convergence

Bermuda is one of only a handful, and certainly the leading jurisdiction, that caters to the convergence market of Insurance Linked Securities (ILS). Bermuda has emerged as the convergence market jurisdiction of choice over competitors in Europe and the Caribbean primarily due to the island hosting one of the largest (re)insurance markets in the world and also as a leading centre in the international investment fund industry.

The local industry has the support of the Bermuda Monetary Authority ('BMA') and thus has strong, yet flexible, regulations that have been put in place to demonstrate the country's commitment to, and also to gain the trust of investors, who invest in this asset class. Bermuda has a significant concentration of highly qualified professionals that have the expertise necessary to navigate through this ever evolving asset class. Bermuda has also been an innovator in creating legal structures that are tax efficient and able to capitalize on the traditional strong returns of the ILS asset class.

In 2009, the BMA passed legislation making it easier to invest in ILS by creating Special Purpose Insurers ('SPIs'). SPIs were created to provide a capital efficient and appropriately regulated and streamlined corporate vehicle for fully collateralized insurance transactions, mainly catastrophe bonds and sidecars. SPIs have been proven to be very useful for these and other fully funded and sophisticated products.

Service providers based in the ILS jurisdictions have been quick to adapt their service offerings to the particular ILS structural and accounting nuances that have emerged since this asset class gained popularity in the alternative fund community. Tax considerations and valuation of the underlying ILS assets are clearly the two areas that are most widely focused on with this particular asset class. With the surge in popularity of ILS, it is hugely important for all services providers (accounting firms, law firms, independent valuation agents, fund administrators, etc.) to be well versed in this business so that they can adapt to the evolving fund and security structures, tax changes, accounting nuances, and changes in the (re)insurance industry.

Service providers based in Bermuda have an advantage of being well-versed in ILS simply because the country has been heavily involved in the (re)insurance and alternative fund markets for more than 30 years. For the reasons mentioned above, Bermuda based service providers have been able to adapt and alter their service offerings to cater to ILS funds and at times, have created new companies that cater specifically to ILS funds or insurance management. This ingenuity is another reason why Bermuda has emerged as a leader in this space.

With Fitch rating Bermuda the top choice for this convergence market, Bermuda has seen company registrations jump to their highest levels since 2008. The Bermuda Stock Exchange has also benefitted, with over \$7 billion of ILS products,

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inclusive of catastrophe bonds and reinsurance-linked investment funds, listed in 2013. As a result of ILS products, Bermuda is now leading the way for the convergence between the insurance and investment industries, and this sector is expected to expand rapidly. Emblematic of this change was the initial public offering completed on the New York Stock Exchange earlier this year by Third Point Re, a Bermuda-based reinsurer backed by hedge fund specialist Dan Loeb, which raised more than \$276 million.

These new approaches and the more assertive business development push from the BDA and its industry partners are paying early dividends. Economic Development Minister Dr Grant Gibbons recently reported that there had been a 16 percent increase in international company incorporations in the first three quarters of 2013, and the number of companies on the register was the highest ever. In addition, 45 new mutual funds registered in Bermuda through October while just 36 registered in the whole of 2012. ■