

**Ross Webber, CEO, BDA**  
**Aon Bermuda Advisory Council Forum 2016**  
**5pm, Wednesday, May 18, 2016**  
**O'Hara House, Hamilton, Bermuda**

## **Fred Reiss 2.0:**

### **How Bermuda's business legacy inspires our future**

Thank you Joe, and good afternoon everyone.

I have to tell you, I'm very grateful to Joe for accommodating my busy schedule and pushing my slot back to 5pm today. I am sure many of you are sports fans. Whether it be baseball, hockey, football, etc. I am a football fan, but I mean real football—or what many of you would call “soccer.” I am an ardent Liverpool supporter and because of your accommodation, I was able to watch the first half of the Europa League final between Liverpool and Seville being played in Switzerland... right now. It's okay—I've set my phone to silent... though it may buzz from time to time.

Please note, this is *THE* most important game Liverpool have played since the 2007 Champions League final. The fact that I'm here standing before you now, should indicate the level of regard and admiration I hold for Aon.

Seriously, on behalf of the BDA and Bermuda, I want to let you know you are appreciated; your contribution to the risk-solutions industry, to Bermuda's GDP and the fabric of our economy is highly valued. You are a vital part of our business community, an important stakeholder, and a participating member of Team B-D-A. So, thank you for your hard work and your dedication to the island.

Indeed, it's a true honour to be invited to speak to you at this inaugural session of Aon's Bermuda Advisory Council.

Joe asked me to kick this off and he said he wanted it to be entertaining, educational and upbeat. Not sure I can make this entertaining, but on the educational and upbeat parts—I'll see what I can do!

As Joe explained it to me, the council will act as a mechanism to link your Bermuda and US teams and, through that connection, foster a greater understanding of our jurisdiction's value and its relevance to the global risk landscape.

That mission has real value—because Bermuda's story is unique.

I've been asked to talk about "*The Bermuda Market's Past, Present & Future.*" So—let's start at the beginning.

Back in 1931, Bermuda was still very much a sleepy mid-Atlantic outpost. The Bermuda Trade Development Board was talking up the "cheerfulness" of Bermuda as an antidote to the world's deepening Great Depression. Precarious monoplanes and airships were making their first non-stop trans-Atlantic flights from America. Bermuda's automatic telephone exchanges opened—with the first direct dial conversation between Bermuda and Washington DC. The Somerset Express, the Floral Parade and the Bermuda Hunt Club were all going strong. And, at a ceremony on Halloween that year, outside Number One Shed on Front Street, Bermuda's bishop and police chief and British Royal Navy officials boarded old "Rattle and Shake"—aka the Bermuda Railway—as it rolled into action on its inaugural run.

Interestingly, it was the land purchase to accommodate the railway that launched Conyers Dill & Pearman. Reginald Conyers had too much conveyancing work for just himself, so he hired James Pearman and Bayard Dill.

The railway, however, had a short-lived existence—just 17 years in operation before it went kaput and was sold to British Guyana. But something else happened in those early years of the 1930s that was far more lucrative. New ideas that triggered changes that would forge a new future for the island.

Bermuda's international business sector took root in those years. Back before the words "corporate" or "global" or "offshore" really meant anything of consequence. This is when our visionaries stepped in. At first, the Bermuda marketplace supported a little bit of trust and private banking work for wealthy overseas clients—like Noel Coward.

Yet the quantum leap to growing the island's business sector, to properly competing globally from Bermuda, was the surmounting of a legal hurdle called the "60-40 Rule." It's a common misconception that the term "exempted company" means the company is exempted from tax. In fact, it relates to legislation dictating that Bermudians must own a minimum of 60 percent of any enterprise doing business locally.

In 1935, parliamentarians Reginald Conyers and Jack Tucker—Sir Henry, as he was later known—proposed the idea of allowing a separate set of rules for companies to use Bermuda as an administrative base for conducting business outside of Bermuda.

In 1935, Robert and Meta Noble, the Noble family—inventors of Lifesavers candy—were permitted to establish the first of what was called an "exempted company." Advised by Conyers Dill & Pearman, under an Act of Parliament, they incorporated Elbon Limited.

The astute ones among you will deduct that “Elbon” is “Noble” spelled backward. It was a win-win, allowing international companies to have a neutral, tax-free, English-speaking and convenient venue from which to administer their non-US interests. Bermuda had laid the foundation for a whole new economic community.

Elbon was followed in 1936 by the International Match Company, incorporated to liquidate the estate of Swedish matchmaker and industrialist Ivar Krueger. A decade later, in 1947, in a cottage on the edge of Hamilton, Cornelius Vander Starr founded the American International Group. Fast-forward six years, to 1953, and AIG counted almost 300 people in Bermuda, most of them engaged in the life insurance business.

Shortly afterwards, another CD&P partner, David Graham, began to make a name for himself. In December 1955, he wrote a letter to *The Times of London*, proposing that British liner fleets and ocean tankers would be far better served by continuing to fly the respected Red Ensign—but without the crippling burden of UK taxes. The solution? Register in Bermuda, a UK territory with its own consumption-based tax system that would prove less onerous than onshore counterparts.

The Peninsular and Oriental Steam Navigation Company—more commonly known as P&O—moved its entire fleet to the Bermuda ship register, and that launched our shipping business. Due to the close collaboration with Lloyd’s of London, ships started forming protection and indemnity—“P&I”—clubs and mutuals. This, along with the arrival of ship-management companies, grew Bermuda’s shipping ecosystem.

Then came captives... In 1962, an Ohio engineer became the grandfather of Bermuda’s captive insurance industry. Fred Reiss formed the first Bermuda captive. He conceived of the idea of “self-insurance,” by which corporations could manage their own risks through a dedicated subsidiary—and save money in paid premiums by doing so. Starting

with American steel companies, Reiss pursued the concept with Bermuda as his testing ground. It was a pioneering project, but one that paid off. Again, a novel concept became a bankable proposition and the island embraced a new nickname: the “World’s Risk Capital.” It’s a moniker that has stuck ever since.

The rest, as you may know, is history. The founding of ACE and XL in the mid-1980s to relieve the global casualty capacity crisis. The successive waves of property catastrophe insurers and reinsurers that followed them here, incorporated after major disasters of the past quarter-century. The “big cats”—Mid Ocean, PartnerRe and RenaissanceRe set up in ’93 and ’94—after Hurricane Andrew. Then came September 11, 2001. Nine-eleven saw something in the order of \$13 billion of new capital flow into Bermuda reinsurers. Many of the new ventures— Axis, Arch, Allied World and Endurance— managed a launch before the January renewals season, an achievement that would not have been possible in the US or the UK. The waves continued following the Gulf Coast hurricanes of 2005, with the likes of Validus and Ironshore.

Each wave caused a paradigm shift that shaped perceptions about analytics, modelling, pricing, quantitative analysis—each time, turning traditional thinking on its head and demonstrating what happens when capital and talent combine in a business-friendly environment.

The evolution continues today. It seems that we’re witnessing the advent of true convergence—the collision of capital markets and reinsurance via sidecars and cat bonds and the world’s largest pool of ILS listings. Hedge-fund-re, fund-of-fund-re, “insuretech” and disruption... This is the future. Bermuda is the lab where new versions of the future are invented every day. It’s about innovation, adaptation and world-class talent. It’s about creating solutions *here*. Today, we’re witnessing the burgeoning growth of the BILTIR market, the long-term life and annuity sector. We’re also watching

the M&A syndrome—which, yes, brings with it unwanted job losses, but also gives birth to larger, more stable combined companies that can continue to thrive in Bermuda. We also see more new insurers locating and growing their operations here.

But why here? What is it about what we've built on this extinct volcano 600 miles at sea that has proven such a charmed Petri dish for these enterprises? How have we been able to so effectively punch above our weight? What are the secrets of our success?

No secrets really. Our lucky location—a place where companies can access a combination of market time zones. Our pool of world-class talent: a recent study found that an estimated 15,000 residents—a quarter of our population—are financial, legal or regulatory experts in transatlantic capital markets.

That level of intellectual capital has driven our market's innovation. When industry challenges arise, when problems need to be solved, the answers are more often than not worked out right here in Bermuda. This is a market of firsts: the first captives; the first true excess carriers; the first cat bonds and collateralised reinsurers.

Innovation has been the currency of our success. Our jurisdiction is an incubator of new ideas, a hub of entrepreneurial energy. And not just in the insurance industry, either. Take a look back in time, and you'll see Bermudians invented a new breed of sailing sloop, a better-tasting onion. We elevated the humble pair of shorts into a fashion icon.

More than anything, though, Bermuda's success has been built on reputation—it's about the Bermuda "brand." We have become known for quality.

Our reputation underscores our adherence to high standards. The Bermuda market has focused on disciplined underwriting and respect for global compliance, transparency

and cooperation. This has never been more important than it is today. In an ever-evolving corporate landscape, the Bermuda brand is about progressive regulation. And we are a leader in that arena.

In 2009—the same year we introduced Special Purpose Insurer legislation—Bermuda was the first offshore jurisdiction to make the OECD’s white list. We’re a cooperative partner with G-20 nations, including the US and UK. We have 91 treaty partners around the world, including 41 TIEAs and 87 multi-lateral partnerships. Our tax treaty with the United States dates back to 1986.

Our regulator, the BMA, has been at the forefront of evolving standards of compliance—first and foremost in the insurance industry. Achieving Solvency II cannot be underestimated—it is a massive feather in our collective hats and a testament to the collaborative and pragmatic approach the BMA has taken to ensure Bermuda’s reputation remains blue-chip. We are highly respected worldwide for our sophisticated regulatory system that is keeping the island at the forefront of corporate governance.

I can say without hesitation that this is our greatest selling point. And I know you are well aware of this, too. That’s because it differentiates us from other offshore centres that, unlike Bermuda, cannot claim to have a well-monitored beneficial ownership register, or robust oversight of financial institutions.

The Panama Papers have brought this issue into sharp focus for us. Because, as a jurisdiction, our biggest challenge is now facing us. And it has nothing to do with soft

markets, competition, the threat of alternative capital, technological disruption, big-data ... or the conundrum of how to write cyber.

The biggest challenge we now face is threatening our reputation. The track record that our market's heroes—people like Tucker, Graham, Fred Reiss...and Joe Rego—worked so hard to build over so many decades. As an offshore financial centre, Bermuda is being tarred with a taint we don't deserve. We are being unfairly lumped with a label we didn't earn. We are being treated as if we belong to a homogenous bloc of places that are far less scrupulous than Bermuda. That don't even belong in the same conversation. Bermuda is different.

Here is the issue: many politicians, media organisations, NGOs and onshore governments don't differentiate among international financial centres when they take aim at us all for corruption and tax evasion.

But there are clear and specific global criteria for what qualifies a jurisdiction as a tax haven. In 1998, the OECD identified four factors that should *ALL* be met to earn that designation.

Do *you* know what they are?

- 1) Lack of transparency
- 2) lack of information exchange
- 3) no substantial activity
- 4) no or nominal tax on income

Bermuda ticks just one of those boxes—and only barely. We have a 15.5% payroll tax but it is not “income tax” in the eyes of the onshore tax man.

The BDA has made it a mission to defend Bermuda’s reputation and we encourage our industry stakeholders to do the same.

There is a wealth of misinformation out there.

Do you know what to say when clients or colleagues ask about Bermuda? When the island comes up in an elevator conversation? When at the dinner-party Bermuda is mentioned in the same category as other less respectable jurisdictions?

Here’s what *we* say when we get labelled as one of the axes of offshore evil. We tell the world what Bermuda *is* and what it *isn’t*. We put our value proposition into concrete terms whenever possible.

Bermuda is home to companies that bail out cities, countries and coastlines after disasters or natural catastrophes.

Examples like this:

- 20% of December 2015 UK flood losses
- 62% of claims for the UK’s largest peacetime fire and explosion—the Buncefield oil-terminal fires of 2005
- 9% of the World Trade Centre 9/11 claims
- 25% of US medical-liability re/insurance
- \$22 billion to rebuild the US Gulf coast after Hurricanes Katrina, Rita and Wilma

- Over 50% of reported liabilities from the 2010 New Zealand earthquake
- And Bermuda provides more than a quarter of the capacity for Lloyd's of London

A study released last year found our little island supports an estimated half-million jobs worldwide, including 300,000 in the States and 70,000 in the UK.

The BDA is here to help you on this messaging front. Our website's Media Centre contains talking points and press releases—and op-eds and speeches... like this one. Feel free to take them for your own use, or call us and ask for more specifics. We want to provide you with everything you need to feel confident and well-informed to speak out as ambassadors for our jurisdiction.

We consider advocacy a critical part of what we do—because it bolsters our mission: not only to encourage new business to invest and set up in our domicile, but to support already established companies like yours and help you maintain and create jobs.

Our end goal is to help cultivate an environment in Bermuda where GDP and jobs can grow and flourish—as they have since the days of our market's pioneers. The global recession set Bermuda back, but the BDA's programme of pro-active business development over the past couple of years is proving effective. We are seeing concrete success stories across all sectors—new incorporations, new funds, new insurers, new brokers, new employees, new job prospects.

Just last week, the government confirmed a fifth successive quarter of GDP growth, with full-year growth totalling over two percent. These are green shoots that we all need to nurture. A couple weeks ago Standard & Poor's affirmed Bermuda's A-plus long-term sovereign credit rating, citing the return of real GDP growth and improving fiscal deficits.

Our outlook is positive. The BDA is bullish on Bermuda's future—and not only thanks to the trail-blazing corporate heritage of a bygone era, but also because of brand new ventures we see on the horizon. This includes fresh potential in the insurance sector—areas such as captives from emerging markets in LatAm and Canada's energy sector. Like healthcare solutions for the morphing US market. Like cyber-risk products that Bermuda is breaking ground on when other markets aren't ready to touch it.

But it's not just about insurance. We're working with decision-makers in London and New York, and are seeing new investment funds chose Bermuda once again.

We're encouraging more high-net-worth individuals to choose Bermuda as their home-base and we're actively pushing into the family office space.

We're witnessing an intriguing explosion of cross-selling opportunities—captives for shipping magnates; fund managers who might need trust services for their own accumulated wealth; insuretech and blockchain companies looking to Bermuda as a home base and a test-bed.

And then there are the blue-sky ventures—biomed, technology, nearshore projects, the continued evolution of our shipping and aviation sectors. We're also bringing new industry events to the island. Conferences and seminars that attract audiences to experience first-hand what makes Bermuda different.

All these things are on our radar and we welcome you to join us. Come aboard our industry working groups, participate in our "Team Bermuda" roadshows, showcase your

expertise in our webinars to help generate leads from across the globe for our marketplace. These are initiatives that are paying off, and that we're proud of.

We like to think we're carrying on what Henry Tucker, David Graham and Fred Reiss started way back when. Call it "Fred Reiss 2.0." He, and those other savvy gentlemen, well understood it takes persistence and discipline, and sometimes just pure doggedness.

But the legacy is worth it—and we all stand to win or lose by every one of our efforts.

Talking of win-or-lose... does anybody know the score in the Liverpool game?

Thank you.