BMA
BERMUDA MONETARY AUTHORITY

Regulatory Update April - June 2018

Table of Contents

Preface

This Regulatory Update reports on activities at the Bermuda Monetary Authority (BMA or Authority) and developments impacting the financial sector, as well as the community, including: 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 30 June 2018.*

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**Published November 2018*

Quarterly Synopsis

The global economy continued to grow steadily in the second quarter. The United States recorded an increase of 4.1% in annualised GDP, with strength in both consumer spending and business investment. In the European Union, annual GDP rose by 2.1% The pace of continued economic growth will, in the short to medium run, put pressure on further interest rate increases.

Bermuda's quarterly Q1-2018 GDP numbers showed a decline, in real terms, of 0.4%. GDP dropped due to declines in capital investment and reduced private consumption, while government consumption increased and the trade surplus widened due to fewer imports of capital goods. The retail sales index dropped in Q2 by 4.9%.

Bermuda's banking sector's capital levels continued to be strong while the leverage position was sound. The banking sector's capital adequacy measured by the Common Equity Tier 1 (CET 1) ratio increased over the quarter from 20.7% to 21.5%, with banks holding more core equity capital (up 3.6% or $63.6 million). The sector's Risk Asset Ratio (RAR) increased over the quarter, rising from 21.5% to 23.1%, mainly driven by the increase in overall regulatory capital (up 7.1% or $132.2 million) relative to the small change in risk-weighted assets (down 0.3% or $27.2 million). The banking sector's leverage ratio position was slightly better, up from 8.2% to 8.4%; remaining above the minimum leverage ratio of 5.0%.

Liquidity across the banking sector declined slightly. The loan-to-deposit ratio fell by 1.4 percentage points to 44.1% during the quarter, driven mainly by the decline in loans (down 1.8% or $157.6 million) to $8.4 billion relative to the inflow of customer deposits (up 1.4% or $265.3 million) to $19.1 billion. All regulated banking institutions complied with the new phased-in liquidity coverage ratio of 90.0% and new net stable funding ratio requirements. The domestic liquidity position as measured by the BD$ loan-to-deposit ratio fell by 1.8 percentage points to 98.1%.

Banking profits were higher. Total income increased by 12.1% to $237.4 million during the quarter; 17.2% over the same quarter last year. The quarterly increase was led by net interest income levels, which rose by 6.5% (or $9.6 million) to $156.9 million; while non-interest income levels were up 25.1% (or $16.1 million) to $80.4 million over the same period. Total operating and non-operating expenses were up 4.3% (or $5.4 million) to $133.1 million for the quarter, resulting in net profit (after tax provisions) increasing by 24.2% (or $20.3 million) to $104.0 million. Profitability indicators show annualised return on equity has remained positive at 4.6% for the quarter. Annualised return on assets remained unchanged at 0.4%.

The total market capitalisation of the Bermuda Stock Exchange (BSX) (excluding funds) was $410.2 billion at the end of Q2-2018, down $11.4 billion from $421.6 billion recorded in Q1-2018. Total trading volume was higher during the quarter at 1,186,428 shares (up from 487,445 shares in Q1-2018) with a corresponding market value of $18.0 billion. The BSX recorded positive returns of 2.1% during the second quarter (compared to 4.7% recorded in the prior quarter) and continued to outperform the Dow Jones Industrial Index (DJII) which recorded a quarterly return of 0.3%.

Bermuda's (re)insurance sector saw higher claims activity in the second quarter of 2018 while profitability, on aggregate, declined year-on-year. For Q2-2018, the combined ratio increased by 12.4% q/q[1] standing on average at 101.7% due to a significant increase in the aggregate expense ratio. The aggregate combined ratio stood at 101.7% compared to 90.5% in Q2-2017.

Mergers and acquisitions activity further consolidates the Bermuda market into a market of fewer but larger players.

[1]*Note: 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., Q2-2018 and Q2-2017.*

Market Analysis and Quarterly Statistics

A) BERMUDA MONEY SUPPLY

Bermuda dollar money supply experienced some growth in Q2. The supply of money within the economy increased by 1.0% to $3.6 billion over the prior quarter, but was 1.6% lower than the amounts reported a year ago. Quarterly growth in notes and coins (up 2.2%) and deposit liabilities (up 1.0%) helped to boost the overall amount of money in circulation in the domestic economy.

Bermuda Money Supply

(BD$ millions)	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Notes & Coins in Circulation*	140	136	141	133	138	131
Deposit Liabilities	3,472	3,438	3,441	3,518	3,532	3,499
Total	**3,612**	**3,575**	**3,582**	**3,651**	**3,670**	**3,630**
Less: Cash at Banks and Deposit Companies	39	37	43	36	40	38
BD$ Money Supply	3,573	3,538	3,538	3,614	3,630	3,592
% Change on Previous Period	1.0%	0.0%	-2.1%	-0.4%	1.1%	1.5%
% Change Year-on-Year	**-1.6%**	**-1.5%**	**0.0%**	**2.1%**	**2.3%**	**2.5%**

Totals may not add due to rounding.

**This table includes 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$ millions)	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Deposit Liabilities	3,472	3,438	3,441	3,518	3,532	3,499
Less: Loans, Advances and Mortgages	(3,515)	(3,576)	(3,578)	(3,608)	(3,641)	(3,688)
Surplus/(deficit) Deposits	(43)	(137)	(138)	(90)	(109)	(189)
Percentage of Deposit Liabilities Loaned	**101.2%**	**104.0%**	**104.0%**	**102.5%**	**103.1%**	**105.4%**

Totals may not add due to rounding.

The domestic liquidity position improved during the second quarter. Local customer deposits increased by 1.0% to $3.47 billion in Q2, whereas domestic lending fell by 1.7% to $3.51 billion; reducing the net deficit balance to negative $43.0 million and improving the domestic loan-to-deposit ratio to 101.2%.

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

(BD$ millions)	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Total Foreign Currency Assets	17,760	17,481	17,855	17,441	17,887	18,346
Less: Other Assets	284	274	246	258	271	273
Less: Foreign Currency Loans to Residents	1,234	1,053	1,118	1,023	981	915
Net Foreign Currency Assets	16,242	16,153	16,492	16,160	16,635	17,159
Foreign Currency Liabilities	15,861	15,653	16,031	15,523	16,054	16,691
Add: BD$ Deposits of Non-Residents	92	130	169	184	172	171
Net Foreign Currency Liabilities	15,953	15,783	16,201	15,708	16,226	16,862
Net Foreign Currency Position	**289**	**370**	**291**	**452**	**409**	**297**

Totals may not add due to rounding.

The foreign currency surplus position fell by 21.9% to $289.0 million during the second quarter. The decrease in the net foreign currency position was attributed to the higher inflow of foreign currency liabilities (up 1.0% or $170.1 million) compared to the marginal increase in net foreign currency assets (up 0.6% or $89.1 million); lowering the net FX funding position within the banking sector.

C) BANKING

Banking Sector Assets and Deposits

(BD$ millions)	**Q2-2018**	**Q1-2018**	**Q4-2017**	**Q3-2017**	**Q2-2017**	**Q1-2017**
Total Assets	21,621	21,349	21,769	21,392	21,912	22,454
Quarterly Change (%)	1.3%	-1.9%	1.8%	-2.4%	-2.4%	-1.1%
Total Deposits	19,051	18,786	19,153	18,802	19,233	19,947
Quarterly Change (%)	1.4%	-1.9%	1.9%	-2.2%	-3.6%	-1.3%

Total assets were down 1.3% to $21.6 billion compared to a year ago, due primarily to declines in loans (down 5.6%) and investments (down 2%); though growth in interbank deposits (up 12.7%) negated some of the yearly decline observed in total assets.

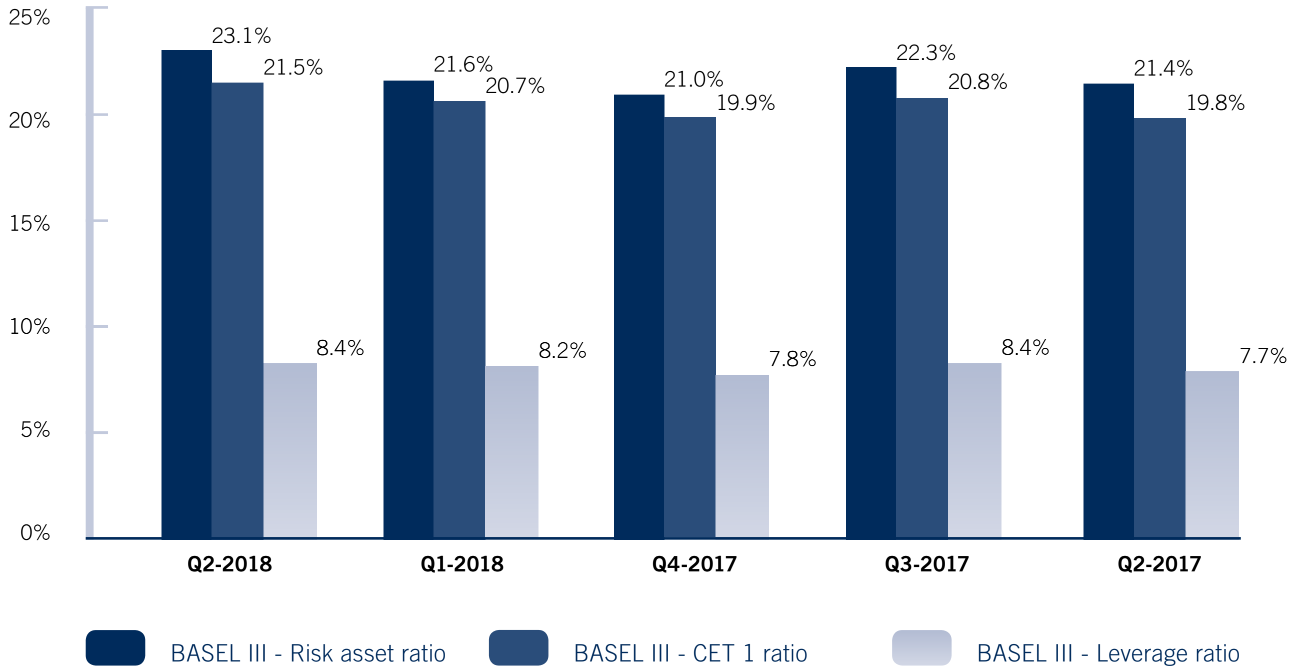
For the quarter, total assets rose by 1.3% with the majority of growth coming from interbank deposits (up 18.6%); lessening the impact of declines in loans (down 1.8%) and investments (down 1.2%).

Total customer deposits fell slightly (down 0.9%) to $19.1 billion over the past year, led by the outflow from saving deposits (down 2.3%) followed by time deposits (down 0.8%) and demand deposits (down 0.1%).

For the quarter, the total customer deposits were up 1.4%, with demand deposits (making up 51.0% of total customer deposits) increasing by 6.9%; while time deposits (making up 15.1% of total customer deposits) fell by 10.3%. Savings deposits experienced little change over the prior quarter.

Basel III Ratios

Regulatory capital levels held by banks continued to build in Q2. The sector's capital adequacy ratio as measured by the Common Equity Tier 1 (CET 1) to Risk Weighted Assets (RWAs) was up slightly by 0.8% to 21.5% over the prior quarter, keeping well-above the minimum capital requirement of CET1 to RWAs plus Capital Conservation Buffer (CCB) of 6.38%; while the Risk-Asset Ratio (RAR) had increased by 1.6% to 23.1%.



Period	RAR	RAR Change	CET I	CET 1 Change
Q2-2018	23.1%	1.6%	21.5%	0.8%
Q1-2018	21.5%	0.5%	20.7%	0.8%
Q4-2017	21.0%	(1.3%)	19.9%	(0.9%)
Q3-2017	22.3%	0.9%	20.8%	1.0%
Q2-2017	21.4%	0.5%	19.8%	0.5%

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

	Q2-2018				Q1-2018				Q4-2017			
(BD$ millions)	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**
Assets												
Cash	87	39	34	15	84	37	31	16	87	43	27	17
Deposits	3,283	18	2,117	1,148	2,769	14	1,222	1,534	3,243	12	1,995	1,236
Investments	9,202	47	7,761	1,394	9,313	39	7,689	1,585	9,323	39	7,860	1,424
Loans & Advances	8,396	3,389	3,199	1,808	8,553	3,423	3,424	1,707	8,514	3,464	3,317	1,733
Premises & Equipment	326	223	92	11	326	217	95	15	343	232	97	14
Other Assets	327	146	109	72	304	140	82	82	258	124	76	59
Total Assets	**21,621**	**3,861**	**13,312**	**4,448**	**21,349**	**3,869**	**12,543**	**4,938**	**21,769**	**3,914**	**13,372**	**4,483**
Liabilities												
Demand Deposits	9,694	1,073	7,415	1,206	9,065	1,053	6,574	1,437	9,696	1,092	7,344	1,260
Savings	6,487	1,596	3,105	1,786	6,520	1,589	3,024	1,907	6,444	1,572	3,045	1,828
Time Deposits	2,870	786	1,343	741	3,201	784	1,452	966	3,012	766	1,360	886
Sub Total - Deposits	**19,051**	**3,454**	**11,864**	**3,733**	**18,786**	**3,426**	**11,050**	**4,310**	**19,153**	**3,429**	**11,749**	**3,975**
Other Liabilities	536	272	190	74	573	280	132	161	635	327	205	103
Sub Total - Liabilities	**19,588**	**3,727**	**12,054**	**3,808**	**19,358**	**3,706**	**11,182**	**4,471**	**19,787**	**3,756**	**11,954**	**4,078**
Equity & Subordinated Debt	2,033	1,965	92	-24	1,991	1,943	72	-24	1,982	1,908	95	-22
Total Liabilities and Capital	**21,621**	**5,692**	**12,145**	**3,783**	**21,349**	**5,648**	**11,254**	**4,447**	**21,769**	**5,664**	**12,048**	**4,056**

	Q3-2017				Q2-2017				Q1-2017			
(BD$ millions)	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**
Assets												
Cash	90	36	36	17	90	40	32	18	80	38	26	16
Deposits	2,390	17	1,293	1,079	2,914	31	1,369	1,514	4,118	25	2,645	1,449
Investments	9,410	40	7,766	1,604	9,386	40	7,797	1,549	8,970	42	7,578	1,350
Loans & Advances	8,886	3,499	3,515	1,871	8,890	3,554	3,321	2,015	8,629	3,620	3,015	1,995
Premises & Equipment	346	237	94	16	348	237	93	18	351	239	95	17
Other Assets	270	121	65	83	283	123	103	57	305	145	106	55
Total Assets	**21,392**	**3,951**	**12,770**	**4,671**	**21,912**	**4,025**	**12,715**	**5,171**	**22,454**	**4,108**	**13,465**	**4,882**
Liabilities												
Demand Deposits	9,913	1,144	7,494	1,275	9,700	1,137	7,242	1,321	10,249	1,110	7,891	1,248
Savings	6,114	1,586	2,772	1,755	6,639	1,599	3,045	1,995	6,895	1,597	3,354	1,943
Time Deposits	2,775	776	1,190	808	2,893	783	1,340	771	2,804	779	1,313	712
Sub Total - Deposits	**18,802**	**3,507**	**11,457**	**3,839**	**19,233**	**3,519**	**11,627**	**4,087**	**19,947**	**3,486**	**12,559**	**3,903**
Other Liabilities	484	256	97	131	648	307	206	134	521	292	118	112
Sub Total - Liabilities	**19,286**	**3,763**	**11,554**	**3,970**	**19,880**	**3,826**	**11,833**	**4,221**	**20,468**	**3,777**	**12,676**	**4,015**
Equity & Subordinated Debt	2,106	1,994	140	-27	2,032	1,898	158	-25	1,986	1,864	144	-23
Total Liabilities and Capital	**21,392**	**5,757**	**11,693**	**3,942**	**21,912**	**5,724**	**11,991**	**4,197**	**22,454**	**5,641**	**12,821**	**3,992**

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 $410.2 billion at the end of Q2-2018, down $11.4 billion from $421.6 billion recorded in Q1-2018. The decline over the quarter was mainly attributed to changes in the trading values of several large international companies. For the quarter, trading volume was 1,186,428 shares compared to 487,445 shares in Q1-2018 and 2,895,472 shares in Q2-2017. The traded value for Q2-2018 was $18.0 billion, an increase of 125.5% from $8.0 billion in Q1-2018 and a decrease of 36.3% from $28.4 billion in Q2-2017. The valuation of domestic firms constituted 0.8% of the total market at end Q2-2018, with domestic market capitalisation amounting to $3.2 billion, down $49.0 million from the previous quarter; and up $730.6 million compared to the same quarter in 2017.

At the end of Q2-2018, the market capitalisation of Insurance-Linked Securities (ILS) on the BSX stood at $26.6 billion, representing 74.9% of the global stock of outstanding ILS deals. At quarter-end, a total of 106 ILS deals (comprising 173 tranches) was listed on the BSX. The global market capitalisation of ILS rose to $35.5 billion, as $5.2 billion in new issuances outpaced $3.0 billion in maturing bonds during the quarter.

Selected Stock Market Performance Indicators*

In % unless indicated otherwise

	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Price Return[1/]						
BSX	2.10	4.70	2.89	0.44	0.81	1.99
BSX - Insurance	-1.70	1.10	0.28	-1.51	1.04	1.89
DJII	0.30	0.10	3.45	1.32	0.79	1.85
Return Volatility						
Annualised Standard Deviation[2/]						
BSX	2.70	2.50	3.01	4.57	4.47	4.86
BSX - Insurance	2.20	2.20	2.26	1.56	1.22	1.45
DJII	2.40	2.10	1.47	1.72	1.93	2.28
Normalised Squared Returns (in standard deviations)[3/]						
BSX	0.10	0.70	0.20	-0.03	0.11	0.30
BSX - Insurance	0.10	-0.90	1.97	0.00	-0.04	0.00
DJII	-0.40	1.20	1.19	-0.26	-0.32	-0.13
Trading Volume/Market Capitalisation[4/]						
BSX	0.30	0.30	0.21	0.32	0.42	0.56
DJII	8.00	9.20	6.98	6.79	7.04	7.14
Real Dividend Yield[5/]						
BSX	6.50	7.00	7.10	6.25	4.79	3.02
DJII	-0.50	-0.10	0.08	0.37	0.44	-0.17

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

Notes:

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

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 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 up compared to the prior quarter. The table on page 8 provides a summary of selected indicators of stock market performance over the last six quarters (Q1-2017 to Q2-2018), comparing the recent development of the BSX to that of the Dow Jones Industrial Index (DJII) as the global equity market benchmark (which proxies the impact of US capital market performance on Bermuda's international business sector). For the quarter, the BSX index recorded a positive return of 2.1%, which is lower than the 4.7% recorded in Q1-2018. The annualised volatility was 2.7% (up slightly from 2.5% in Q1-2018), while the trading volume was steady, matching the prior quarter's metric of 0.3% of market capitalisation. The BSX index continued to outperform the DJII which recorded a quarterly return of 0.3% (up from 0.1% in Q1-2018) with an annualised return volatility of 2.4% (up from 2.1% in Q1-2018). The return for the insurance sub-index (BSX-Insurance) fell to -1.7% during the quarter compared to 1.1% in Q1-2018, while the volatility was unchanged at 2.2% over the prior quarter.

The following charts show the BSX quarterly closing price level (indexed to Q1-2005 as base year), the annualised return volatility, the dividend yield (in both nominal and real terms), and the trading volume relative to market capitalisation up to Q2-2018 (Charts 1-4). Dividend payouts remain high and were above the DJII for an eleventh consecutive quarter. The aggregate dividend yield of stocks listed on the BSX over the last quarter fell 50 bps to 6.5% over the prior quarter after adjusting for headline inflation, which continues to be considerably higher than comparable yields generated by stocks included in the DJII (-0.5%). At the same time, the average quarterly return volatility (as a measure of risk) was higher than that of the DJII (and above the long-term average over the last four years, as indicated by the positive value of normalised squared returns in the table above).

Note: The total trading volume and corresponding market value data for the period Q1-2011–Q4-2016 provided in previous editions of the Regulatory Update, were on a cumulative YTD basis, and not on a quarterly basis, as reported in error.

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

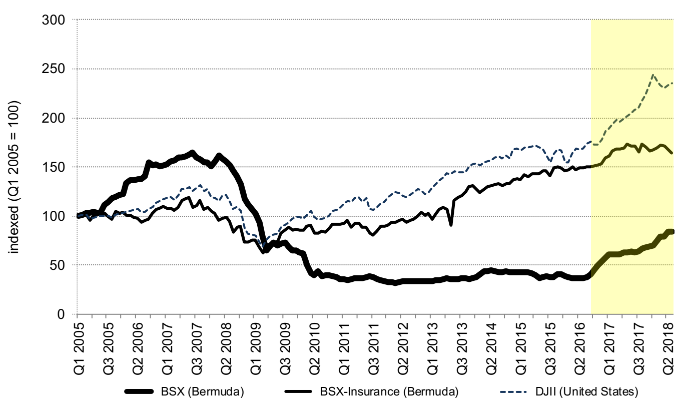


Chart 2. Annualised Return Volatility*

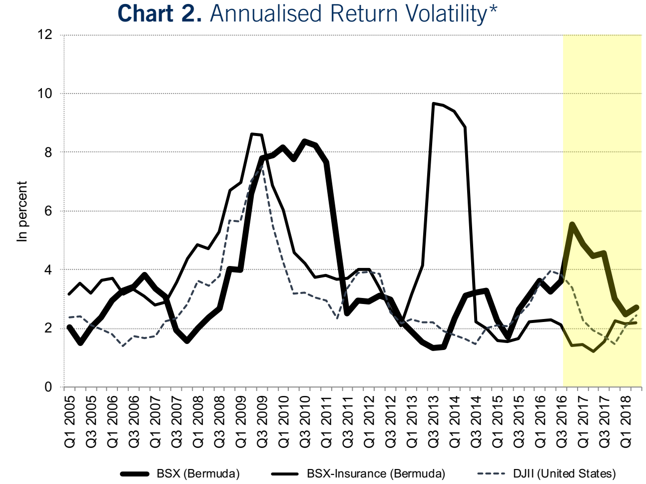


Chart 3. Dividend Yield (nominal and inflation-adjusted)*

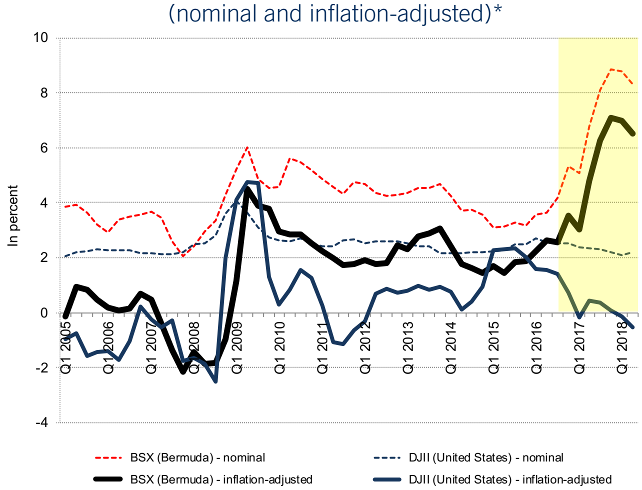
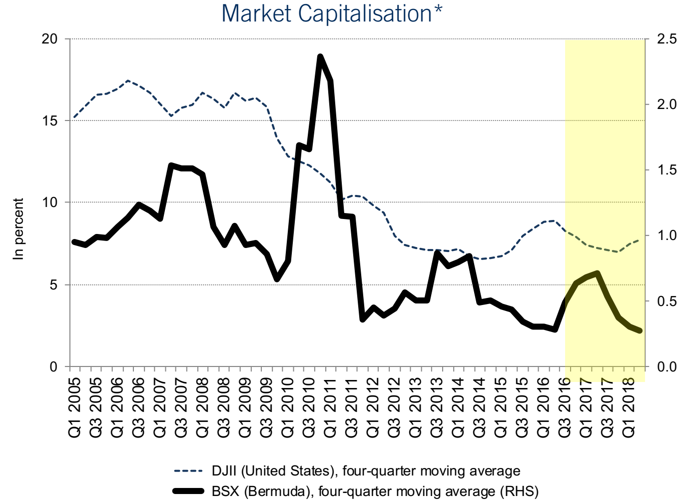


Chart 4. Ratio Between Trading Volume and Market Capitalisation*



**Note: Charts are in line with Q2-2018 data.*

E) INVESTMENT FUNDS

Investment Fund Statistics

(BD$ billions)	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Administered Funds	6	6	6	7	7	7
Class A Exempt Funds	64	64	61	41	41	41
Class B Exempt Funds	40	39	38	27	26	26
Exempted Funds	9	14	19	54	58	61
Institutional Funds	262	264	270	278	277	272
Standard Funds	146	146	149	153	154	153
Total Number of Funds	**527**	**533**	**543**	**560**	**563**	**560**
Net Asset Value (NAV)	**$168.19**	**$144.66**	**$161.54**	**$162.50**	**$152.88**	**$135.03**

The period Q1-2018 to Q2-2018 saw a small decrease in the total number of funds by six from 533 to 527 (a reduction of 1.1%), however, the portfolio saw an overall increase in the total NAV of 16.3% or $23.5 billion, from $144.7 billion to $168.2 billion. The minor decrease in funds was offset by an increase in subscriptions, positive performance results, and foreign exchange gains for the period.

N.B. - *The Authority has aligned its Investment Fund Statistics with the following definitions of fund license classes per the Investment Funds Act 2006 (the Act):*

- **Administered Funds** must be licensed under Part III of the Act and participants are required to invest a minimum amount of $50,000; or the fund must be listed on a Stock Exchange recognised by the Authority for the purpose of Section 11 of the Act.
- **Class A Exempt Funds:** A fund is automatically registered as a Class A Exempt fund after self-certifying that the following requirements of subsection 6A(2) of the Act have been met:
    - the fund is open to qualified participants;
    - the operator of the fund has appointed an investment manager for the fund that is either:
        - licensed in Bermuda;
        - authorised or licensed by a foreign regulator recognised by the Authority; or
        - for the purposes of the Act, is carrying on business in or from Bermuda, or in a jurisdiction recognised by the Authority, being a person who:
            - has gross assets under management of an amount that is not less than $100.0 million;
            - or is a member of an investment management group that has consolidated gross assets under management of an amount that is not less than $100.0 million.
- **Class B Exempt Funds** are open to qualified participants. The fund can apply to be exempted from the requirement for authorisation where the qualification requirements of subsection 7(2) of the Act have been met.
- **Exempted Funds:** Section 9 of the Act pertaining to exempt funds was repealed due to the introduction of two new exempt funds classifications – i.e., Class A and Class B above. Therefore, exempted funds are currently in the process of being re-classified.
- **Institutional Funds** are targeted at institutional/sophisticated investors and are restricted to qualified participants investing at least $100,000. They are required to have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund.
- **Standard Funds** do not fit within any other class of fund. Such funds are not restricted to sophisticated investors and may include a more significant retail element among their investors. Consequently they are subject to more comprehensive and regulation and supervision.

F) COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Companies*	208	193	228	204	202	205
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	76	30	39	18	10	31
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	0	0	0	0	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	20	2	16	2	4	21
Total Applications Approved	**304**	**225**	**283**	**224**	**216**	**258**

**Note: 'Companies' includes – Continuations into Bermuda, Exempted, Exempted by Guarantee, Local, Local 60/40, Local Limited by Guarantee and LLCs.*

G) INSURANCE

Insurance Registrations (Q2-2018)

During the second quarter of 2018, the Authority registered 14 (re)insurers; the same amount recorded for the same period last year.

Name	Date	Type
	Registrations in April 2018	
Bellemeade Re 2018-1 Ltd.	5-Apr-18	SPI
Thermo Fisher Scientific Re Ltd.	5-Apr-18	1
Chubb INA Overseas Insurance Company Ltd.	11-Apr-18	3A
Kendall Re Ltd.	16-Apr-18	SPI
Bowline Re Ltd.	23-Apr-18	SPI
	Registrations in May 2018	
New Highway Insurance Company, Ltd.	3-May-18	1
Apex Global Insurance Ltd.	7-May-18	1
Socium Re Limited	10-May-18	SPI
Operational Re II Ltd.	22-May-18	SPI
Scalene Re Ltd.	28-May-18	SPI
	Registrations in June 2018	
Silvercreek Insurance Company Ltd.	4-Jun-18	1
Frontline Re Ltd.	5-Jun-18	SPI
PSBA Insurance Company, Ltd.	22-Jun-18	2
MASON INSURANCE COMPANY, LTD.	28-Jun-18	2
	Total Registrations	
Insurers: 14		

Descriptions of the various classes of (re)insurer can be found on page 18.

Quarterly Review of the Commercial (Re)insurance Sector – Bermuda (Re)insurance Groups (as of end Q2-2018)

The following section provides the main findings from a review of quarterly public US GAAP filings of (re)insurers that are members of insurance groups supervised by the BMA (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 second quarter of 2018 was marked by higher claims activity while profitability, on aggregate, decreased compared to the second quarter of 2017. For Q2-2018, the combined ratio increased by 12.4% q/q[1] standing on average at 101.7% due to a significant increase in the aggregate expense ratio. The pricing dynamics in the market do not seem to have changed dramatically. According to Q2-2018 tentative data, the ILS market shows a half year reduction of US exposures compared to half year 2017 issuances. It remains to be seen whether this effect is due to trapped capital or changes in the risk appetites in this space.

Bermuda (re)insurance groups improved their asset base by 6.4% q/q. Bermuda (re)insurers produced a positive gross profit of $0.7 billion despite a combined ratio above 100.0%. The aggregate combined ratio stood at 101.7% compared to 90.5% in Q2-2017. The loss ratio increased by 3.8% q/q while the expense ratio increased significantly by 27.8%.

Reserve leverage increased by 20.1% q/q and financial leverage increased by 13.9% q/q. Total equity dropped by 6.7% q/q while reserves increased by 12.2%, thus increasing reserve leverage. The increase of assets compared to the drop of equity increased financial leverage. Net Written Premiums to Equity, a rough inverse measure of solvency, increased by 33.3% q/q reaching 69.4%.

The investment portfolios of Bermuda (re)insurance groups produced a low Return on Investment (RoI) close to 0.7%, an increase of 8.7% q/q. Return on equity dropped by 11.5% q/q. As a proxy for liquidity, the sum of cash and high quality "AAA"-rated securities represent 139.6% of claims for Q2-2018, a decrease of 28.9% q/q.

[1] *Note: 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., Q2-2018 and Q2-2017.*

Table 1. Select Financial Soundness Indicators (FSIs)

(In % unless indicated otherwise)	2018		2017			2017	2016	Change (%)	
	Q2	Q1	Q4	Q3	Q2	FY	FY	QoQ	YoY
Capital Adequacy and Asset Quality									
Assets (In US$ billions)	**201.0**	202.9	197.4	196.6	188.9	**197.4**	**176.3**	6.4	12.0
Reserves to Assets (Reserve Ratio)	**58.9**	59.2	58.8	58.8	55.8	**58.8**	**55.2**	5.5	6.7
Reserves to Equity (Reserve Leverage) [1/]	**231.6**	237.4	231.2	229.2	192.8	**231.2**	**181.9**	20.1	27.1
Assets to Equity (Financial Leverage) [2/]	**393.4**	401.4	392.9	389.7	345.4	**392.9**	**329.8**	13.9	19.1
Net Written Premiums(NWP) to Equity [3/]	**69.4**	69.2	66.5	64.0	56.9	**66.5**	**58.7**	33.3	13.3
Profitability and Actuarial Issues									
Gross Profit (excl. capital gains) (In US$ billions)	**0.7**	1.5	0.5	-3.6	1.5	**-0.5**	**4.8**	-55.7	-
Investment Income to Net Income	**79.7**	173.9	555.8	-24.4	59.2	**-473.8**	**75.9**	34.6	-
Combined Ratio	**101.7**	91.1	103.7	149.3	90.5	**110.3**	**92.8**	12.4	18.8
Average Claims to Reserves [4/]	**2.3**	3.0	3.0	2.8	2.2	**1.9**	**2.3**	5.4	-16.3
Return on Equity	**2.0**	0.9	0.3	-5.6	2.2	**-1.2**	**6.5**	-11.5	-
Return on Investment	**0.7**	0.6	0.6	0.6	0.6	**2.4**	**2.3**	8.7	3.9
Cash and "AAA" Assets to Claims [5/]	**139.6**	145.3	171.4	152.4	196.4	**165.3**	**167.1**	-28.9	-1.1

Source: 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.

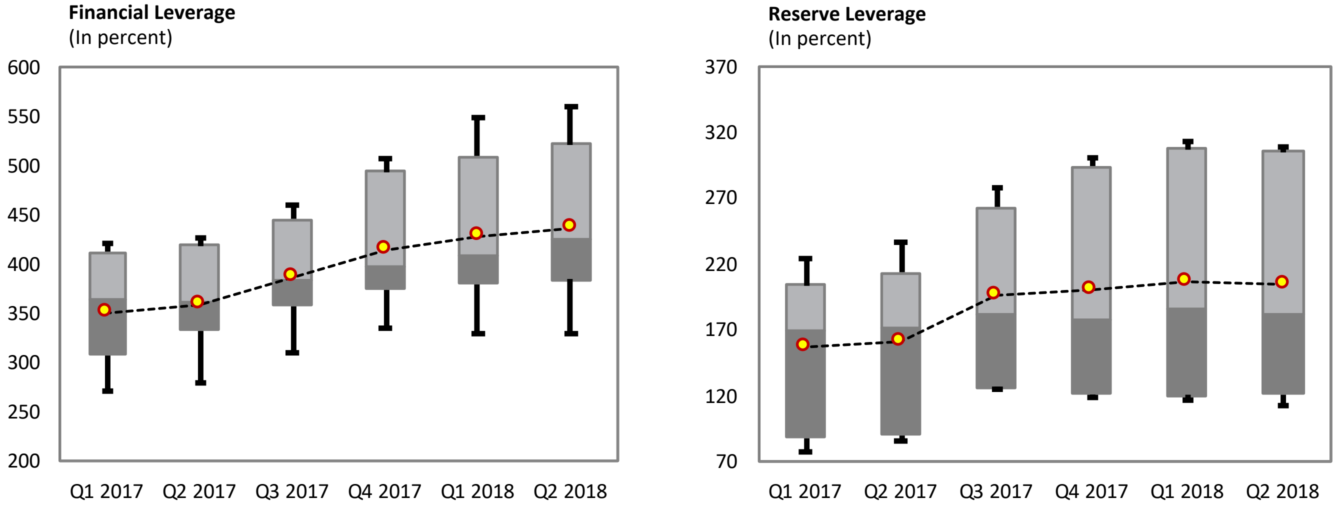
3/. Quarterly values contain the cumulative amount of NWPs over the last four quarters as numerator.

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.

Due to the exclusions of firms from the sample, the current table is not directly comparable to previous RU tables.

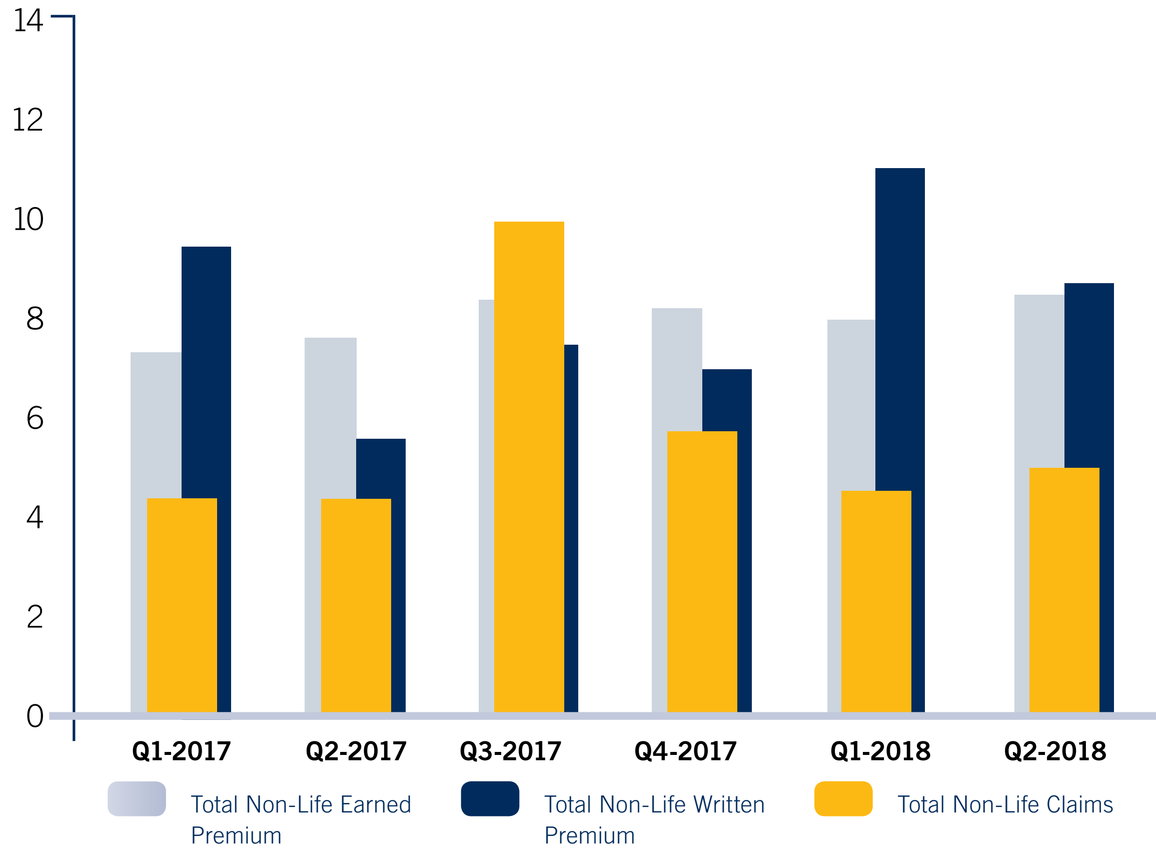
Figure 1. Dispersion of Financial and Reserve Leverage



Source: BMA 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 (Q1-2017 — Q2-2018)

Claims and Net Non-Life Written/Earned Premiums (in US$ bln)



Source: BMA staff calculations.

Regulatory and Legislative

SUPERVISION

Digital Asset Business Consultation Paper Issued

On 11 April 2018, the Authority issued a consultation paper outlining the proposed regulation of service providers within the Digital Asset Business (DAB) industry. The paper discussed the economics of DAB and the proposed regulatory framework to be implemented by the BMA to regulate this business. In addition to the consultation paper, a draft bill, Code of Practice and Statement of Principles was proposed, as well as rules for cybersecurity, public disclosures, and filing annual returns with the BMA. Public feedback was requested by 2 May 2018.

BMA Proposes Insurance Regulatory Sandbox/Innovation Hub

Recognising the growing importance of innovation in the (re)insurance and wider financial services industry and the critical role that innovation plays in promoting efficiency and enhancing competitiveness in the market, the BMA issued an insurance regulatory sandbox consultation paper on 12 April 2018. The paper outlined the Authority's plan to launch two parallel innovation tracks targeted at InsurTech companies – a "regulatory sandbox" and an "innovation hub". The regulatory sandbox would be tailored to companies seeking to test new products and innovative solutions to a limited number of policyholders for a limited period of time and looking to subsequently be licenced under the Insurance Act 1978. The innovation hub would be designed to promote broader dialogue on innovative insurance solutions, including with entities conducting activities that are not directly regulated by the Authority. Companies or persons who wanted to meet with the Authority or who simply wished to better understand Bermuda's current regulatory landscape were encouraged to email innovate@bma.bm. Feedback was requested by 15 May 2018.

Amendments to Investment Funds Act 2006 Proposed

On 13 April, a consultation paper was issued that outlined proposals for amending the Investment Funds Act 2010. The main proposal was that Class A Exempt funds should be exempt from the requirement to appoint a custodian or prime broker if certain criteria were met. The deadline for comments was 4 May 2018.

Consultation Papers Issued for Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)

On 11 May, the BMA issued proposed Guidance Notes for AML/ATF Regulated Financial Institutions - Corporate Service Provider (CSP) Business. This was followed by a consultation paper published on 14 May that sought feedback on Bermuda's National Anti-Money Laundering Committee (NAMLC) proposals to strengthen Bermuda's AML/ATF Framework. Specifically, proposals were made in relation to segregated accounts established by the Segregated Accounts Companies Act 2000 and Separate Accounts established by a Private Act by putting in place appropriate customer due diligence vetting requirements. Feedback was requested by 4 June 2018.

BMA Holds Information Session about National Risk Assessment (NRA)

Over 150 industry representatives attended an NRA outreach session at the Hamilton Princess on 15 May. The purpose of the session was to provide licensed entities with an overview of the findings of Bermuda's first public NRA for money laundering/terrorist financing threats and vulnerabilities. The preparation of the 2017 NRA was led by NAMLC. Following the outreach, a set of Frequently Asked Questions (FAQs) was posted on the BMA website providing more information on the BMA's role in the preparation of the NRA, key findings and its overall importance.

Discussion About Regulation of Financial Holding Companies Begins

On 31 May, the industry was asked to give its views on the structure of a proposed regime for the regulation of Financial Holding Companies (FHC) in Bermuda. For the purposes of the discussion paper, an FHC was defined as a company incorporated in Bermuda, which owned an operating financial services subsidiary but did not itself conduct financial services in the jurisdiction. Responses were requested by 31 July 2018.

BMA Publishes First Insurance Digest

The first BMA Insurance Digest – titled "Group Supervision" – was published on 25 June. The Digest provided an overview of Bermuda's insurance group regime, how it has evolved over the past six years and provided perspectives on what the future of group supervision may look like. More Digests will be published in due course.

INTERNATIONAL

FinTech issues continued to be a regular focus of discussion amongst international stakeholders and the following trends were noted:

- ongoing shift to online/mobile as the primary distribution channel
- integration of digital tools and mobile apps for policy management and real-time claims submission
- enhanced digital engagement between consumers, brokers and carriers
- health insurance and employee benefits marketplace is changing
- a rise in peer-to-peer and on-demand insurance

The International Organisation of Securities Commissions (IOSCO) also discussed FinTech related issues during their 43rd Annual Conference, in addition to consumer protection issues and the availability of funding via the capital markets.

The BMA continues to input into the work of the International Association of Insurance Supervisors and in particular preparations of the revised Insurance Core Principles (ICPs) and ComFrame texts.

The Authority also participated in the following international engagements in Q2-2018:

- Discussed cyber risk developments in insurance at the IAIS/Financial Stability Institute (FSI)/Bank for International Settlements (BIS), High-Level Meeting for Heads of Insurance Supervision Authorities in April
- Presented a paper on recent development in international reinsurance supervision at the Organisation for Economic Co-ordination and Development (OECD) Seminar on Disaster Risk Financing in May
- Presented a paper on the IAIS work on reinsurance and macroprudential surveillance, and participated in a case study on reinsurance purchasing at an IAIS/Association of Latin American Insurance Supervisors (ASSAL) Insurance Supervision Seminar in May
- Took part in the 14th Meeting of the Financial Stability Board's Regional Consultative Group for the Americas in June. Among other things, financial stability risks emanating from FinTech and cyber risks were discussed
- Presented a paper on catastrophe reinsurance supervision at an International Monetary Fund/Caribbean Association of Insurance Regulators Insurance Supervision Seminar in June.

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: Large commercial insurers and reinsurers 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.

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