



Regulatory Update July - September 2016

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Preface

This bulletin reports on recent activities at the Bermuda Monetary Authority (the Authority) and recent developments affecting the financial sector, as well as the community generally. Attached to it is the 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 30th September 2016.*

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**Published December 2016*

Quarterly Synopsis

During the quarter, Bermuda's banking sector continued to exceed regulatory capital requirements and improve its overall capital position and resiliency. Loan book quality improved with the percentage of Non-Performing Loans (NPLs) to total loans falling to a new low. The balance sheet further contracted while profitability declined following two quarters of growth.

Bermuda's (re)insurance sector had slightly higher losses in the third quarter compared to Q3-2015 but posted higher gross profits, resulting in stable returns and a lower combined ratio. Markets are anticipating that the US Federal Reserve's December meeting could possibly result in an interest rate hike. Banks could possibly benefit, as the combination of a potential rate increase and reduced regulation for financial sectors (stemming from US President-elect Donald Trump's administration) could be viewed as a win for the banking sector. Economic indicators show that Bermuda's economy is exhibiting signs of slow improvement, as Gross Domestic Product (GDP) growth continued to build in the second quarter.

The banking sector's capital position was marginally better in Q3-2016, with the Risk Asset Ratio (RAR) and Common Equity Tier 1 (CET 1) ratio rising for a fourth consecutive quarter. The sector's capital adequacy as measured by the RAR rose from 21.4% to 21.9% in Q3-2016, while the primary regulatory capital ratio of CET 1 had a modest increase, rising to 18.2%. Both measures are comfortably above minimum regulatory requirements. The sector continues to maintain higher levels of capital when compared to international standards, which also includes mandatory capital that banks are required to hold in addition to other minimum capital requirements. Banks continued to reduce their credit risk exposures, as Risk-Weighted Assets (RWAs) declined by 4.6% during the quarter. The leverage ratio, which complements the risk-based capital adequacy standards, rose marginally to 8.0%.

Overall profitability fell in Q3-2016, as the combination of lower earnings and increased operational costs impacted net profits.

The banking sector reported lower quarterly earnings, as net interest income was comparatively stable, while non-banking income fell by 42.6%, resulting in an 8.3% overall decline in total income during the quarter. Operating and non-operating expenses were relatively higher over the same period, rising by 27.4% for the quarter. Overall cost efficiency deteriorated, with non-interest expenses to total income increasing from 62.5% to 86.8%. Annualised Return on Equity (RoE) and Return on Assets (RoA) declined to 4.9% and 0.5% respectively. Loan book quality stayed positive, with the portion of performing loans to total loans reaching 93.0% for the quarter.

Liquidity conditions within the banking sector, as measured by the percentage of loans to deposits, continued to trend upward. The sector's liquidity funding structure remained reasonable, with the

ratio of loans to total deposits rising from 45.9% to 47.3%. Customer deposits fell at a faster rate (down 7.4%) relative to the decline in total loans (down 4.5%), narrowing the sector's overall funding gap. Lending continued to be stagnant, with most sectors experiencing little growth for the period. The real estate sector to total loans was fairly stable at 49.0% but remains the dominant sector. The sector classified as "Other" declined from 36.4% to 34.7% of total loans due to a decline in lending to low-risk, highly-rated sovereigns. All other remaining sectors had minimal increases during the quarter. All banking institutions continued to meet the new 70% phased-in Liquidity Coverage Ratio (LCR) as per the Authority's Final Basel III Rule, in addition to the Authority's regulatory liquidity requirements.

Following three consecutive quarters of steady growth, Bermuda Dollar money supply fell slightly in Q3-2016, but remained 3.5% higher compared to a year earlier. The overall decrease was led by a marginal decline in Bermuda Dollar customer deposits (down 0.3% or \$8.5 million), while all other contributors were fairly even quarter-on-quarter.

Total market capitalisation of the BSX (excluding funds) was \$318.4 billion at the end of Q3-2016, up \$32.6 billion from \$285.8 billion recorded in Q2-2016. This increase was primarily due to changes in the trading values of several large, international companies. Total trading volume in Q3-2016 was 6,948,612 shares (up from 4,315,612 shares in the previous quarter), with a corresponding total market value of \$37.0 million (up from \$11.1 million in Q2-2016). The Insurance Linked Securities (ILS) market had 80 deals (comprising 113 tranches) listed on the BSX, with an aggregate nominal value of approximately \$18.6 billion.

Compared to Q3-2015, Bermuda's (re)insurance industry posted better third quarter results in 2016, with (re)insurance groups reporting higher profits and lower catastrophic losses. Bermuda (re)insurers produced a positive gross profit of \$1.7 billion, 16.4% higher than Q3-2015 due to lower expenses and increased reported investment income. The sector's aggregate combined ratio was 89.5% compared to 90.2% in Q3-2015. The investment portfolio of Bermuda's (re)insurance groups produced low returns, as Return on Investments (RoI) was approximately 0.6%, but is an improvement of 21.8% when compared to a year ago.

Global economic conditions conducive for slow development – some major economies began to show positive signs in third quarter. US GDP rose 2.9% in the third quarter (after averaging just 1.1% for the first two quarters of the year). Consumer spending, greater business investment and net exports all supported growth for the quarter, as a new US president was elected. The British economy also grew at a stronger than expected pace in the third quarter, especially in light of Brexit. During the quarter, Bermuda's

Department of Statistics released GDP data for Q2-2016 that showed an annual rate increase of 1.3% (after inflation). The key driver behind the GDP increase was an upturn in gross capital formation (i.e., investments in fixed assets) which increased 10.8% (in real terms) reflecting higher investment in machinery and equipment. In contrast, Government consumption fell 3.1% and household final consumption fell 1.4%, both in real terms. The Q2-2016 "Quarterly Bulletin of Statistics" report revealed that employment income increased 2.1%, or \$16.3 million. The international business sector recorded the largest increase in remuneration of \$8.0 million due to higher wages, salaries and bonuses.

Market Analysis and Quarterly Statistics

A) BERMUDA MONEY SUPPLY

Bermuda's banking sector's money supply fell by 0.3% (or \$8.9 million) in Q3-2016, declining for the first time in 12 months.

The decline in deposit liabilities was the main driver of the money supply having fallen by 0.2% (or \$8.5 million) over the prior quarter. When compared to a year earlier, the overall money supply rose by 3.5% (or \$120.8 million) as deposit liabilities rose by 3.5% (or \$117.4 million) from a year earlier.

Bermuda Money Supply

(BD\$ mln)	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Notes & Coins in Circulation*	128	129	125	133	124	122
Deposit Liabilities	3,450	3,458	3,416	3,359	3,333	3,340
Total	3,578	3,587	3,541	3,492	3,457	3,462
Less: Cash at Banks and Deposit Companies	38	39	38	45	38	36
BD\$ Money Supply	3,539	3,548	3,503	3,447	3,419	3,426
% Change on Previous Period	-0.25%	1.28%	1.63%	0.84%	-0.22%	0.36%
% Change Year-on-Year	3.53%	2.25%	2.63%	3.14%	1.33%	2.02%

Totals may not add due to rounding.

* This table denotes 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\$ mln)	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Deposit Liabilities	3,450	3,458	3,416	3,359	3,333	3,340
Less:						
Loans, Advances and Mortgages	(3,812)	(3,876)	(3,915)	(3,971)	(3,975)	(4,125)
Surplus/(deficit) Deposits	(362)	(418)	(499)	(611)	(643)	(785)
Percentage of Deposit Liabilities Loaned	110.5%	112.1%	114.6%	118.2%	119.3%	123.5%

Totals may not add due to rounding.

The deficit continued to decline during the quarter, down 13.4% (or \$56.1 million) as a reduction in loan balances was further offset by growth in the sector's deposit base. As a result, the loan-to-deposit ratio fell from 112.1% to 110.5%. The improvement in the ratio was the result of the 1.2% (or \$42.1 million), growth in domestically denominated deposit liabilities while the domestic loan book fell by 1.0% (or \$38.8 million). In comparison to a year earlier, the movement within the ratio was amplified largely by 4.1% (or \$163.3 million) decline in the sector's loan portfolio. Conversely, deposit liabilities were up 3.5% (or \$117.4 million) from a year earlier.

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

(BD\$ mln)	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Total Foreign Currency Assets	18,242	19,597	19,904	19,715	19,009	20,091
Less: Other Assets	314	255	162	183	201	212
Less: Foreign Currency Loans to Residents	1,115	1,073	1,089	999	944	825
Net Foreign Currency Assets	16,814	18,269	18,653	18,533	17,864	19,054
Foreign Currency Liabilities	16,490	17,860	18,239	18,313	17,644	18,804
Add: BD\$ Deposits of Non-Residents	182	154	155	116	193	174
Net Foreign Currency Liabilities	16,671	18,013	18,394	18,429	17,837	18,978
Net Foreign Currency Position	142	256	259	104	27	76

Totals may not add due to rounding.

The net foreign currency position remained positive despite moderate declines during the quarter of approximately \$114 million. Net foreign currency assets declined by \$1.5 billion (or 8.0%) and was driven largely by \$1.6 billion (or 32.5%) decline in deposits held at other banks. On the other hand, net foreign currency liabilities declined by \$1.3 billion (or 7.5%) and were largely reflective of the \$1.1 billion decline in foreign denominated demand deposit liabilities (or 11.0%).

C) BANKING

Banking Sector Assets and Deposits

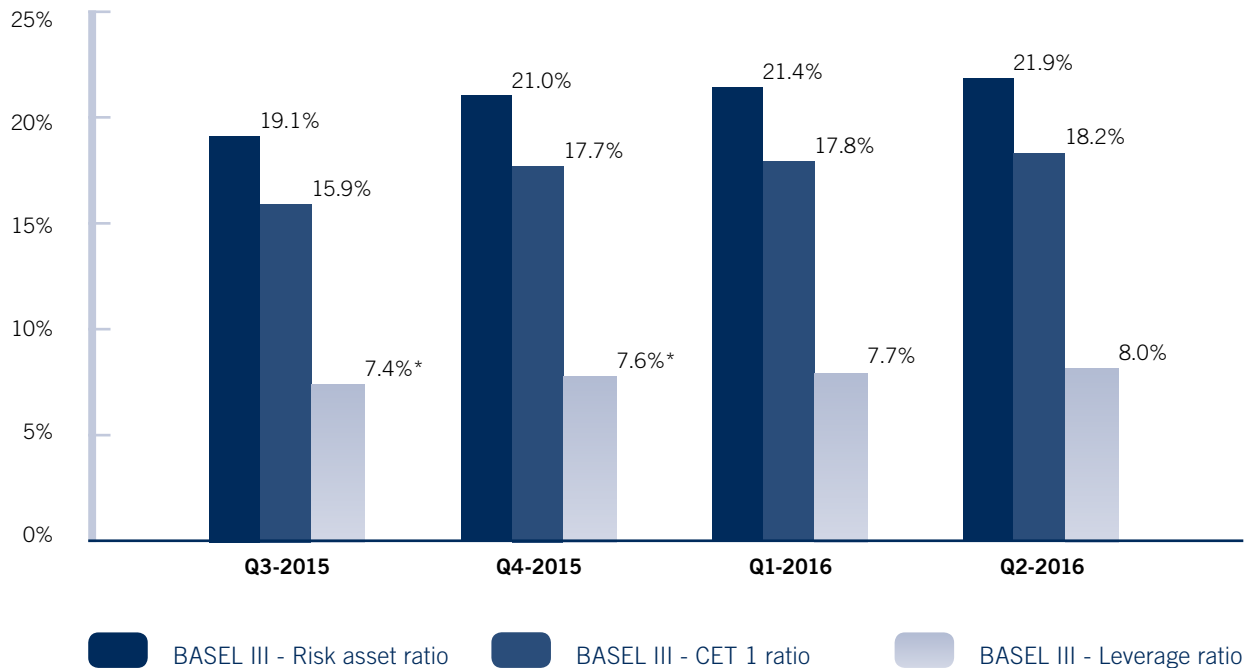
(BD\$ mln)	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Total Assets	22,414	23,901	24,206	24,072	23,416	24,631
Quarterly Change (%)	-6.2%	-1.3%	0.6%	2.8%	-4.9%	2.2%
Total Deposits	19,501	21,051	21,275	21,365	20,662	22,052
Quarterly Change (%)	-7.4%	-1.1%	-0.4%	3.4%	-6.3%	3.2%

The sector's asset base fell by 6.2% (or \$1.5 billion) while deposit liabilities fell by 7.4% (or \$1.6 billion) during the same period. The decline in the assets base was driven by deposits at banks which fell by 32.4% (or \$1.6 billion) during the quarter and a direct response to the 9.9% drop in demand deposits (or \$1.1 billion) held within the sector.

When compared to a year earlier, deposit liabilities decreased by 5.6% (or \$1.2 billion) while total assets fell by 4.3% (or \$1.0 billion).

Basel III Ratios

The sector's risk asset ratio under Basel III rose from 21.0% to 21.4% during the second quarter of 2016.



* Restated

RAR	Period	CET I	RAR Change
21.9%	Q3-2016	18.2%	0.4%
21.4%	Q2-2016	17.8%	0.4%
21.0%	Q1-2016	17.7%	1.9%
19.1%	Q4-2015	15.9%	0.4%
18.7%	Q3-2015	15.6%	0.1%

Basel III adoption became effective 1st January 2015 with a phasing-in period for capital requirements commencing from 2016 to 2019 (full implementation). Basel II reporting was discontinued from 1st January 2016.

Beginning 1st January 2016, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 70.0%, an increase from 60.0% (2015 requirement). A fully phased-in LCR minimum of 100.0% will be in place by 1st January 2019.

As of 1st January 2016, all banks were required to hold additional capital until 1st January 2019 due to the phasing-in of the Capital Conservation Buffer (CCB). This year, the phase-in requirement is 0.6% which resulted in the minimum CET 1 ratio increasing from 4.5% to 5.1%. The 2019 fully phased-in CCB will be 2.5%.

The sector's capital position stays strong under the new Basel III standards. Capital adequacy levels remain well above the minimum regulatory requirements. The Basel III Risk Asset Ratio (RAR) increased from 21.0% to 21.4%, while the CET 1 ratio rose from 17.7% to 17.8% during the quarter. The leverage position under Basel III also increased slightly from 7.6% to 7.7%.

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

(BD\$ mln)	Q3-2016			Q2-2016			Q1-2016		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	87	38	49	81	39	42	78	38	40
Deposits	3,428	24	3,404	5,072	31	5,040	3,750	30	3,720
Investments	8,988	41	8,947	8,290	38	8,253	10,338	35	10,303
Loans & Advances	9,222	3,694	5,528	9,660	3,762	5,897	9,340	3,802	5,538
Premises & Equipment	439	260	179	337	227	110	348	236	112
Other Assets	250	115	135	461	207	255	353	161	192
Total Assets	22,414	4,172	18,242	23,901	4,304	19,597	24,206	4,302	19,904
Liabilities									
Demand Deposits	10,320	1,096	9,224	11,453	1,085	10,368	11,372	1,130	10,242
Savings	6,329	1,539	4,790	6,465	1,524	4,941	7,060	1,536	5,524
Time Deposits	2,852	793	2,058	3,133	821	2,312	2,843	741	2,102
Sub Total - Deposits	19,501	3,428	16,073	21,051	3,430	17,620	21,275	3,407	17,868
Other Liabilities	701	284	417	590	351	239	731	360	371
Sub Total - Liabilities	20,201	3,711	16,490	21,641	3,781	17,860	22,006	3,767	18,239
Equity & Subordinated Debt	2,213	1,831	382	2,260	1,869	390	2,199	1,839	361
Total Liabilities and Capital	22,414	5,542	16,872	23,901	5,650	18,250	24,206	5,606	18,600

(BD\$ mln)	Q4-2015			Q3-2015			Q2-2015		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	81	45	36	82	38	44	76	36	40
Deposits	3,813	25	3,788	4,919	21	4,898	5,891	40	5,851
Investments	10,425	39	10,386	9,185	40	9,145	9,277	58	9,219
Loans & Advances	9,073	3,862	5,211	8,520	3,919	4,600	8,665	4,017	4,648
Premises & Equipment	406	294	112	425	304	121	431	309	121
Other Assets	274	92	183	285	84	201	291	79	212
Total Assets	24,072	4,357	19,715	23,416	4,406	19,009	24,631	4,540	20,091
Liabilities									
Demand Deposits	11,668	1,049	10,619	11,101	1,021	10,080	12,151	1,021	11,130
Savings	6,493	1,489	5,004	6,035	1,487	4,548	6,199	1,495	4,704
Time Deposits	3,204	799	2,405	3,526	802	2,723	3,702	803	2,899
Sub Total - Deposits	21,365	3,337	18,028	20,662	3,311	17,351	22,052	3,320	18,733
Other Liabilities	567	281	286	585	291	293	400	329	71
Sub Total - Liabilities	21,931	3,618	18,313	21,247	3,602	17,644	22,453	3,649	18,804
Equity & Subordinated Debt	2,141	1,797	344	2,169	1,793	376	2,178	1,829	349
Total Liabilities and Capital	24,072	5,415	18,657	23,416	5,395	18,021	24,631	5,478	19,153

Premises and Equipment and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets.

* Other includes USD and other currencies.

D) BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX (excluding funds) was \$318.4 billion at the end of Q3-2016, up by \$32.6 billion from \$285.8 billion in Q2-2016. This increase was primarily due to changes in the trading values of several large, international companies. Total trading volume in Q3 was 6,948,612 shares (up from 4,315,612 shares in the previous quarter), with a corresponding total market value of \$37.0 million (up from \$11.1 million in Q2-2016). The valuation of domestic firms constituted 0.66% of the total market, with capitalisation amounting to \$2.10 billion, up by \$427.6 million from the previous quarter.

At the end of Q3-2016, the market capitalisation of Insurance-Linked Securities (ILS) on the BSX stood at \$18.6 billion, representing 73.0% of the global stock of outstanding ILS deals. At quarter-end, a total of 80 ILS deals (comprising 113 tranches) were listed on the BSX, with an aggregate nominal value of approximately \$18.6 billion. Global market capitalisation of ILS rose to \$25.4 billion, as \$1.1 billion in new issuances outpaced \$779.0 million in maturing bonds during the quarter.

Selected Stock Market Performance Indicators*

In % unless indicated otherwise

	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Price Return^{1/}						
BSX	7.03	-0.27	-3.29	2.43	0.81	-4.35
BSX - Insurance	0.43	-0.24	0.20	1.88	-0.27	0.64
DJII	0.97	0.88	-0.31	2.43	-3.03	-0.01
Return Volatility						
Annualised Standard Deviation^{2/}						
BSX	3.61	3.26	3.60	3.14	2.65	1.69
BSX - Insurance	2.13	2.28	2.25	2.23	1.64	1.55
DJII	3.80	3.96	3.50	2.83	2.44	2.08
Normalised Squared Returns (in standard deviations) ^{3/}						
BSX	4.99	-0.14	0.83	0.92	0.10	2.09
BSX - Insurance	-0.08	-0.05	-0.02	0.06	-0.02	-0.11
DJII	-0.11	-0.22	5.90	1.97	0.82	-0.59
Trading Volume/Market Capitalisation^{4/}						
BSX	1.05	0.29	0.37	0.25	0.24	0.37
DJII	7.14	7.77	9.33	8.92	9.49	7.62
Real Dividend Yield^{5/}						
BSX	2.55	2.62	2.23	1.89	1.83	1.43
DJII	1.40	1.54	1.60	2.02	2.35	2.32

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

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

Notes:

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 the six-month moving 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 positive during Q3-2016. The table above provides a summary of selected indicators of stock market performance over the last six quarters (Q2-2015 to Q3-2016), 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). Over the last quarter, the BSX index recorded a positive return of 7.03% (up from negative 0.27% in Q2-2016) amid modestly higher annualised volatility of 3.61% (up from 3.26% in Q2-2016), while trading volume rose to 1.05% of market capitalisation. Following strong improvement in its risk-return trade-off, the BSX index outperformed global standards, relative to the DJII, which recorded a quarterly return of 0.97% (up from 0.88% in Q2-2016) amid lower annualised return volatility of 3.80% (down from 3.96% in Q2-2016). The risk-return trade-off was also favourable for the insurance sub-index (BSX-Insurance). The total return performance was 0.43% during the quarter (up from negative 0.24% in Q2-2016), while volatility fell to 2.13 % (down from 2.28% in Q2-2016).

The following charts show the BSX quarterly closing levels (indexed to Q1-2005 as base year), the annualised return volatility, the dividend yield (in both nominal and real terms), and the trading volume up to Q3-2016 (Charts 1-4). While capital gains of the BSX have turned negative since the beginning of 2009, dividend pay-outs remain high and were above international markets for a third consecutive quarter. The aggregate dividend yield of stocks listed on the BSX over the last quarter stood at 2.55% (down from 2.62% in Q2-2016) after adjusting for headline inflation, which was higher than comparable yields generated by stocks included in the DJII (at 1.40%). At the same time, the annualised return volatility (as a measure of risk) was lower than that of the DJII (but above the long-term average over the last four years, as indicated by the positive value of normalised squared returns in the table below).

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

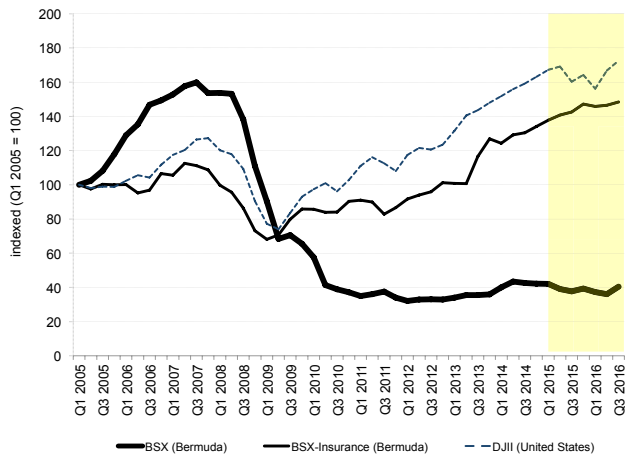


Chart 2. Annualised Return Volatility

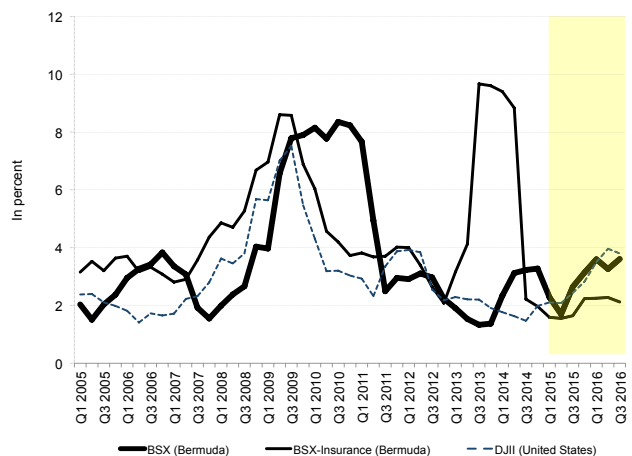


Chart 3. Dividend Yield (nominal and inflation-adjusted)

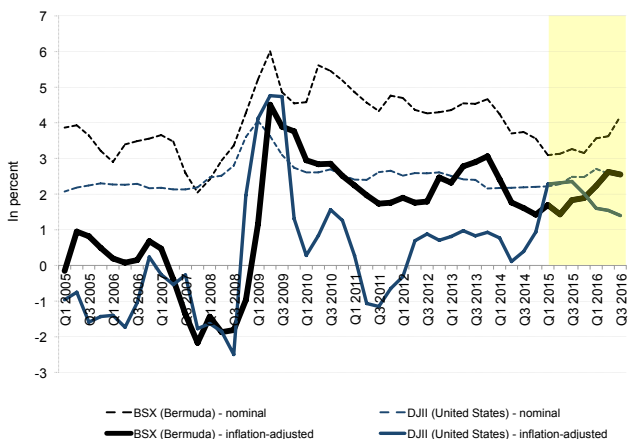
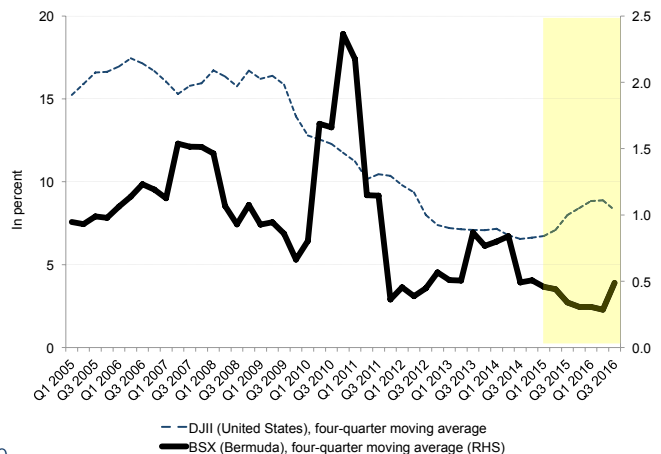


Chart 4. Ratio Between Trading Volume and Market Capitalisation



E) INVESTMENT FUNDS

Investment Fund Statistics

	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Mutual Funds	405	415	419	429	434	434
Umbrella Funds	35	36	37	38	39	39
Segregated Accounts Companies (SAC)	73	69	68	69	70	69
Unit Trusts	43	44	43	52	50	49
Umbrella Trusts	28	28	29	36	37	37
Total Number of Funds	584	592	596	624	630	628
Net Asset Value (in US\$ bln)	\$139.34	\$151.81	\$150.19	\$144.22	\$145.06	\$152.57

Quarter vs. Quarter: During the period Q2 2016 to Q3 2016, the total number of funds decreased slightly by 8 from 592 to 584. Alternatively, Q3 2016 experienced a moderate decrease in the total NAV by 8.24% or \$12.47 billion, from \$151.81 billion to \$139.34 billion due to Fund restructures and performance.

F) COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Exempted Companies (Bermuda companies exempted from the 60.0% Bermudian ownership requirement)	216	212	238	329	198	212
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	18	47	28	38	17	36
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	1	1	8	5	2
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	1	13	3	3	13	11
Unit Trusts	-	-	-	-	-	-
Total Applications Approved*	237	273	270	378	233	261

* Quarterly Numbers are amended to reflect more up-to-date consent information.

The statistics shown above reflect the number of applications that have received vetting clearance from the Authority.

These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

G) INSURANCE

Insurance Registrations (Q3-2016)

During the third quarter of 2016, the Authority registered four insurers. This compares to nine insurers and one intermediary for the same period last year.

Name	Date	Type
<i>Registrations in July 2016</i>		
SOLEN LIFE INSURANCE LIMITED	28-Jul-16	A
<i>Registrations in August 2016</i>		
Breakwater Insurance Ltd.	8-Aug-16	1
<i>Registrations in September 2016</i>		
Excelsior Insurance Limited	9-Sep-16	2
New England Pediatrics Indemnity, Ltd.	28-Sep-16	2
<i>Total Registrations</i>		
Insurers: 4	Intermediaries: 0	

Descriptions of the various classes of insurer can be found in the Explanatory Notes section of this publication on page 19.

Quarterly Review of the Commercial (Re)insurance Sector – Bermuda (Re)insurance Groups (as of end Q3-2016)

The following section provides the main findings from a review of quarterly public US GAAP filings of (re)insurers that fall within the group wide supervision by the Authority (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 third quarter of 2016 recorded marginally higher losses for large commercial Bermuda (re)insurance groups¹ compared to Q3-2015, and the combined ratio dropped by 1.2% q/q².

Catastrophic losses were lower, again at a scale that would not cause material financial impact to (re)insurers.

Monetary policy remains an important economic variable in (re)insurance since it drives investment yields and financial disintermediation. Monetary policy did not change dramatically in Q3-2016. Likewise, pricing dynamics in the reinsurance market have not changed significantly while catastrophic losses dropped in Q3-2016. It remains to be seen how the active hurricane season has affected the results of the reinsurers that will be released in Q4-2016.

Bermuda (re)insurance groups improved their asset base by 4.0% q/q. Bermuda (re)insurers produced a positive gross profit of \$1.7 billion, an increase of 16.4% q/q due to decreased expenses and increased reported investment income. The aggregate combined ratio stood at 89.5% compared to 90.2% in Q3-2015. The loss

ratio increased marginally by 0.7% q/q due to higher losses while the expense ratio decreased by 4.2% q/q. Investment income represented 58.3% of net income, a significant decrease by 66.4% from Q3-2015. The main reason for the decrease in the ratio of investment income to net income is the reduction of the reported capital losses in investments for this quarter which increased the total investment income.

Reserve leverage decreased by 4.7% q/q and financial leverage decreased by 3.0% q/q. Total equity increased by 7.2% q/q while reserves increased by 2.2%, thus decreasing reserve leverage. The slower increase of assets compared to equity reduced financial leverage. Net Written Premiums to Equity, which is a very rough inverse measure of solvency, increased by 2.4% q/q, reaching 57.0%.

The investment portfolios of Bermuda (re)insurance groups produced a low Return on Investment (RoI) close to 0.6%, an improvement of 21.8% q/q. Return on Equity (RoE) increased significantly by 244.0% q/q due to higher investment income and lower expenses. As a proxy for liquidity, the sum of cash and high quality "AAA"-rated securities represents 200.2% of claims for Q3-2016, a decrease of 15.4% q/q.

¹ The information presented in this section relates to public filings under US GAAP of publicly traded insurance groups that have an entity registered as a Class 4 or 3B commercial (re-)insurer and fall within the group wide supervision by the Authority ("Bermuda groups"). The presented information is based on aggregated individual firm data.

² Note that 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., Q2-2016 and Q2-2015.

Table 1. Select Financial Soundness Indicators (FSIs)*

<i>(In % unless indicated otherwise)</i>	2016			2015		2015	2014	Change (%)	
	Q3	Q2	Q1	Q4	Q3	FY	FY	QoQ	YoY
Capital Adequacy and Asset Quality									
Assets (In US\$ bln)	205.7	204.2	200.7	192.5	197.8	192.5	169.8	4.0	13.4
Reserves to Assets (Reserve Ratio)	55.8	56.7	56.8	56.2	56.8	56.2	56.8	-1.7	-1.1
Reserves to Equity (Reserve Leverage) ^{1/}	183.2	189.5	189.2	182.7	192.1	182.7	177.4	-4.7	3.0
Assets to Equity (Financial Leverage) ^{2/}	328.4	334.0	332.8	325.1	338.5	325.1	312.1	-3.0	4.2
Net Written Premiums to Equity ^{3/}	57.0	58.7	57.9	56.1	55.7	56.1	57.8	2.4	-2.9
Profitability and Actuarial Issues									
Gross Profit (excl. capital gains) (In US\$ bln)	1.7	1.0	1.5	1.7	1.5	6.5	7.0	16.4	-7.2
Investment Income to Net Income	58.3	82.7	77.6	65.8	205.1	68.5	54.7	-66.4	25.3
Combined Ratio	89.5	97.2	89.5	88.4	90.2	89.1	86.5	-1.2	3.0
Average Claims to Reserves ^{4/}	2.2	2.2	2.1	2.3	2.0	1.8	2.0	10.0	-10.8
Return on Equity	2.2	1.5	1.4	1.7	0.6	7.0	9.7	244.0	-27.4
Return on Investment	0.6	0.6	0.5	0.5	0.5	2.3	2.5	21.8	-7.8
Cash and "AAA" Assets to Claims ^{5/}	200.2	194.1	210.9	228.3	236.7	221.3	315.3	-15.4	-29.8

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.

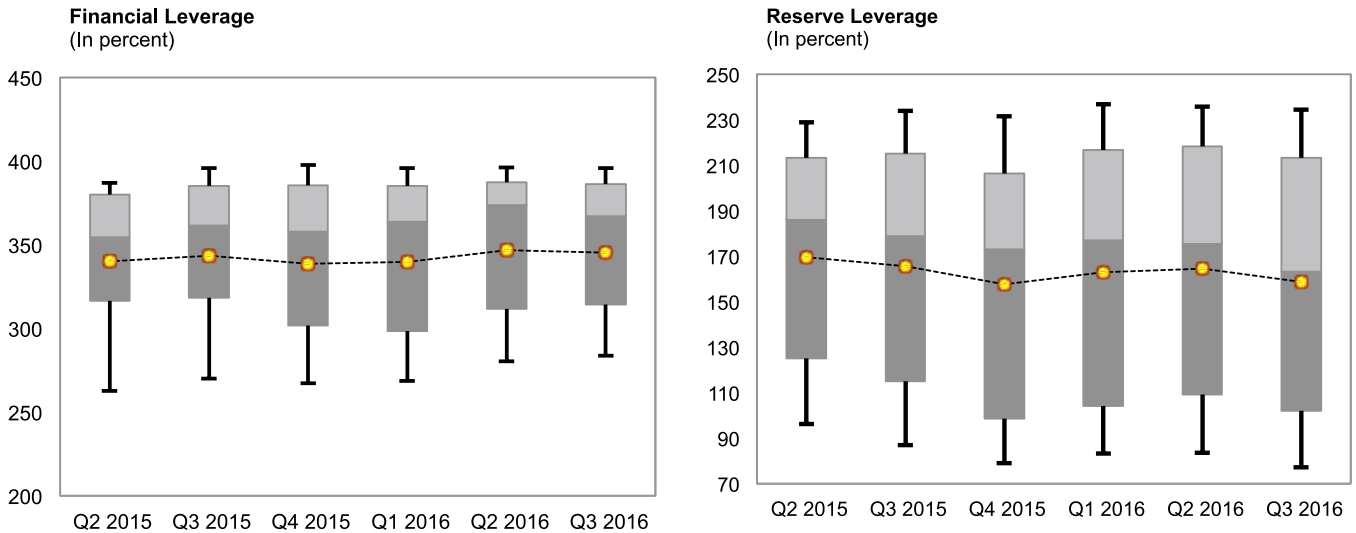
3/ The quarterly values contain the cumulative amount of Net Written Premiums over the last four quarters as numerator.

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. The general picture with the past does not change from a qualitative point of view.

* Due to mergers the current table is not directly comparable to the previous Regulatory Update tables.

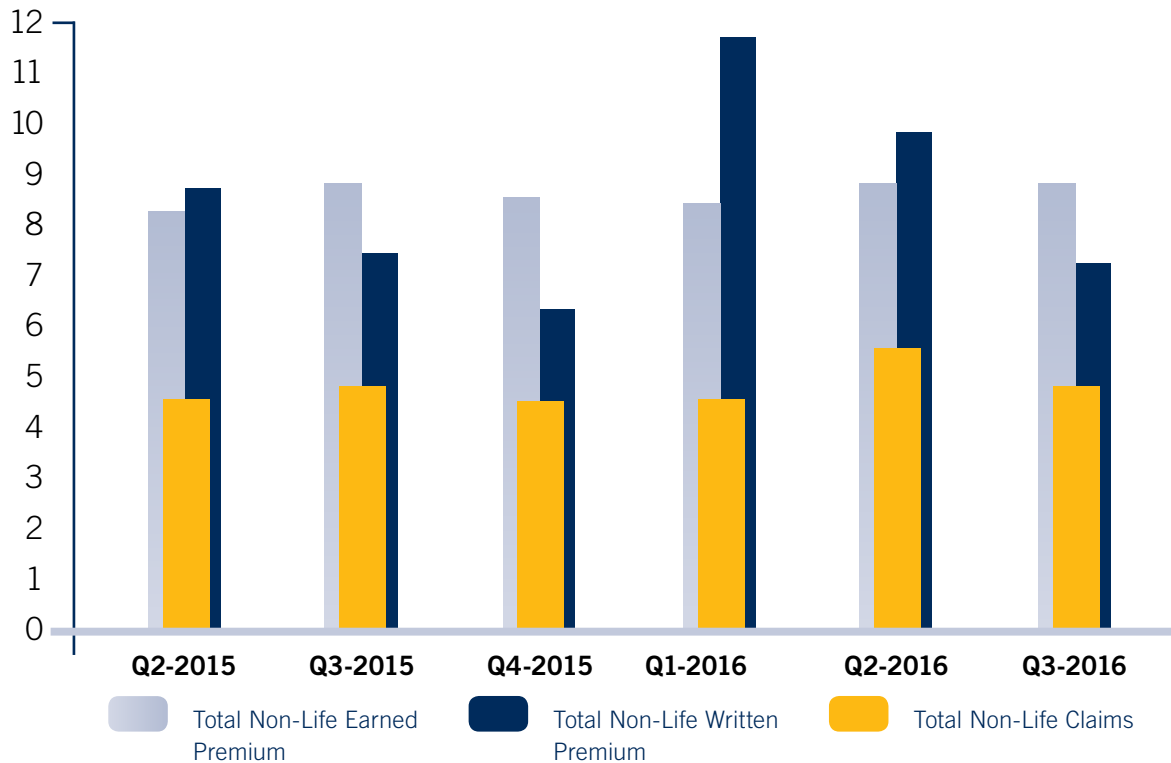
Figure 1. Dispersion of Financial and Reserve Leverage



Source: the Authority 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 (Q2-2015 to Q3-2016)

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



Source: Authority staff calculations.

Regulatory and Legislative

SUPERVISION

Money Service Businesses get own Legislative Framework

In July, a bill entitled Money Service Business Act (MSB Act) was passed. Its purpose was to enhance the Authority's oversight of MSBs with a full suite of legislation similar to other legislative Acts. Previously, MSBs were governed through powers under section 20AA of the Bermuda Monetary Authority Act 1969. MSB Act also included powers to make regulations specific to any particular activities carried out by an MSB. Additionally, the Authority proposed that this legislation include power for the Minister of Finance, after consultation with the Authority, to amend the list of activities in which MSBs are allowed to engage by adding services that the Minister deems appropriate, as and when the need arises.

Bermuda's AML/ATF Guidance Updated

In August, the Authority published stakeholder responses about Anti-Money Laundering / Anti-Terrorist Financing (AML/ATF) General Guidance Notes. In addition, on 17th August the Authority published its feedback to comments received during consultation on sector-specific AML/ATF Guidance Notes for the Trust and Long-Term (life) insurance sectors. The final version of Bermuda's AML/ATF General Guidance Notes was published on 20th September and is effective from that date. The Authority continues work on the Guidance Notes at a sectoral level and stakeholder outreach initiatives on those related matters is ongoing.

Insurance Manager Code of Conduct Published

In August, the Authority published an Insurance Managers Code of Conduct to establish duties, requirements and standards with which they need to comply, including procedures and principles to be observed. The Authority provided a transition period until 31st December 2016 for implementation.

Investment Funds Amendment Act 2016 Passed

In August, the Investment Funds Amendment Act 2016 (Amendment Act) was passed and entered into force on 28th October. The main purpose of the Amendment Act was to enhance the powers available to the Authority to regulate the investment funds industry in Bermuda in line with appropriate international standards. Specifically, enhancements were made to the Authority's ability to: issue directions in cases of emergencies; seek injunctive relief; impose civil penalties; make prohibition orders; publish relevant censure information: and introduce associated procedures.

Stakeholder Letter Issued on EBS and BSCR Trial Run Report

In September, the Authority thanked stakeholders for their continued support of its key initiatives, particularly the Economic Balance Sheet

(EBS) trial run. Based on the results of the trial run and industry feedback, the Authority concluded that the EBS framework and the proposed BSCR changes formed a sound basis for Bermuda's commercial (re)insurance regime for the financial years ending 31st December 2016 and beyond.

Personal Declaration Forms Replaced for Directors, Officers and Shareholders

In September, the Authority replaced outdated Personal Declaration Forms with two new versions; one for 'Shareholders,' and another for 'Directors and Officers'. The latter must now be completed and signed by each individual proposing to be a Director or an Officer of a Bermuda Company and/or Bermuda Group. A separate Personal Declaration Form for Shareholders must be completed and signed by each individual proposing to have a beneficial interest of 10% or more in a company either registered in or to be registered in Bermuda.

INTERNATIONAL

The Authority attended several meetings of the International Association of Insurance Supervisors (IAIS) between July– September 2016. In July, this included: Supervisory Forum in Basel, Switzerland; Self-Assessment Peer Review of Insurance Core Principles 13 & 24 in Washington, DC; in August, the Financial Crime Task Force in Washington, DC and Insurance Groups Working Group in Paris, France; in September, Reinsurance Task Force in Bermuda, Macroprudential Policy and Surveillance Working Group in Basel and Capital Solvency and Field Testing Working in Basel. At these meetings the Authority worked to develop international insurance regulation standards.

In addition, the Authority attended the National Association of Insurance Commissioners' (NAIC) Spring Meeting in San Diego in August. Matters up for discussion included the impact of Solvency II on US reinsurers writing business in Europe and the Qualified Jurisdiction position.

The Authority also attended a European Insurance and Occupational Pensions Authority (EIOPA) Workshop in Frankfurt, Germany in September. The importance of information exchanges was highlighted at this workshop for regulators who supervise cross-border insurance groups,

The Authority supported Bermuda's jurisdictional business development efforts by attending the RIMS Canada Executive Forum in Calgary, Alberta in September. Organised by the Bermuda Business Development Agency (BDA) the Authority spoke about the strengths of Bermuda's regulatory framework for captive insurers.

OTHER

Authority Participates in Local Insurance/Investment Conferences

The Authority spoke at September's ALARYS Congress Bermuda. It was the third time the two-day conference had been staged in Bermuda, the only non-Latin venue in its 20 year history. Global regulatory trends such as Solvency II, TIEAs and 'why Bermuda' were discussed.

The same week, the World Alternative Investment Summit was held for the first time in Bermuda, bringing together investment managers, hedge funds, investment banks, attorneys and investors. The Authority participated on two panels; the first providing an overview of Bermuda's asset management landscape including product offerings, regulation and access to capital; the second discussed the latest regulatory, compliance and valuation updates affecting the fund industry from the US, Europe and Bermuda.

Also in September, the Authority participated in a Bermuda Alternative Investment Management Association (AIMA) "Breakfast Bite" seminar where it shared essential tips for a successful CSP license application with 90 lawyers, auditors, investment managers, directors, Trust and ILS professionals in the audience. The Authority also shared how it had extended the license application deadline of CSPs to 1st October. Other topics covered included the implications of Brexit and the Organisation for Economic Cooperation and Development's common reporting standards for the automatic exchange of financial account information in tax matters.

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: Insurers and reinsurers capitalised at a minimum of \$100.0 million 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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