



## Regulatory Update July - September 2018

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## **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 September 2018.\*

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*\*Published December 2018*

# Quarterly Synopsis

## International Developments

**Despite an expanding global economy, the International Monetary Fund (IMF) expected a rather challenging road ahead** as tensions are amplified by uncertainties surrounding trade agreements, Brexit and rising inflation. US fiscal expansion in the form of tax cuts increased inflation, while the Fed reverted monetary policy back to normal with multiple rate increases.

**The US economy grew by 3.5% (on an annual basis) in real terms in Q3-2018, while average inflation for Q3-2018 reached 2.6%.** As US monetary policy renormalises, capital flows are expected to move in favour of the US.

**Brexit is an ongoing uncertainty for the UK and Europe.** The UK economy grew in real terms by 0.6% in July-September, the best quarterly growth in almost two years, but economists see storm clouds ahead. The Eurozone economy lost some momentum in the third quarter, growing at its slowest pace since Q2-2014. According to a preliminary estimate released by Eurostat, GDP increased a seasonally adjusted 0.2% in Q3 from the previous quarter.

**Economic growth across the South-East Asia (SEA) region is expected to slow in H2-2018 and into 2019** amid moderating Chinese import demand and escalating US-China trade tensions. Japan's Q3-GDP growth plunged to a three-year low at 1.2%. The decline is driven by a slowdown in external and domestic demands.

## Bermuda Market

**The capital levels of Bermuda's banking sector remained sound during Q3-2018, increasing for a third consecutive quarter.** Regulatory capital measurements showed that the Common Equity Tier 1 (CET 1) ratio rose from 21.5% to 23.1%, exceeding the minimum capital requirement plus Capital Conservation Buffer of 6.38%. Risk-weighted assets (RWAs) held by the sector decreased 5.9% to \$8.1 billion, compared to the modest increase in common equity capital (up 0.6%) to \$2.0 billion. The sector's Risk Asset Ratio (RAR) increased over the quarter, rising from 23.1% to 24.7%. The leverage position improved over the previous quarter, as the leverage ratio has risen from 8.4% to 9.2%, the highest level since the implementation of Basel III.

**The banking sector's loan-to-deposit ratio increased during the quarter; all banks continued to comply with regulatory liquidity requirements.** The liquidity metric of loans-to-deposits was higher in the third quarter, rising 2.7 percentage points to 47.1%, as the decline in customer deposits (down 9.4% or \$1.8 billion) to \$17.3 billion outpaced the fall in overall lending (down 3.3% or \$274.2 million) to \$8.1 billion. The domestic liquidity position as measured by the BD\$ loan-to-deposit ratio was stable at 101.1%. For the quarter, all regulated banking institutions met the phased-in 90% liquidity coverage ratio (LCR) and net-stable funding ratio (NSFR).

**Bank profitability was lower during the quarter.** The sector reported lower profits with the quarterly decline being led by decreasing net interest income levels, down 3.2% (or \$5.0 million) to \$152.0 million coupled with lower non-interest income levels, down 16.8% (or \$13.5 million) to \$67.0 million over the same period. Total operating and non-operating expenses were relatively higher, increasing by 2.2% (or \$3.0 million) to \$136.0 million for the quarter, resulting in net profit (after tax provisions) falling by 20.0% (or \$21.5 million) to \$82.5 million. The quarterly Return on Equity (ROE) declined by 0.9 percentage points to 3.7%, while the quarterly Return on Assets (RoA) remained at 0.4%.

**Bermuda's (re)insurance sector returned to profitability in Q3-2018.** The combined ratio dropped 29.4% for the quarter, standing on average at 101.3% due to lower losses and increases in the aggregate expense ratio. Market pricing dynamics do not seem to have changed dramatically. The tightening monetary policy stance of the US Federal Reserve (Fed) is set to continue. Return on Equity (RoE) stood at 0.7% in Q3-2018.

**Total market capitalisation of the Bermuda Stock Exchange (BSX) (excluding funds) was \$378.1 billion at the end of Q3-2018, down \$32.1 billion from \$410.2 billion recorded in Q2-2018.** The BSX index recorded a positive return of 2.1%. Annualised volatility was 2.8%; up marginally from the 2.7% in Q2-2018.

## Market Analysis and Quarterly Statistics

### A) BERMUDA MONEY SUPPLY

**Money supply within the local economy remained flat over the quarter.** Bermuda money supply experienced little movement, as notes and coins dropped marginally. Local customer deposit liabilities rose slightly by 0.2% to \$3.48 billion. Money supply over the past year declined, falling by 1.0% (or \$35.9 million) to \$3.58 billion.

#### Bermuda Money Supply

(BD\$ millions)	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Notes & Coins in Circulation*	139	140	136	141	133	138
Deposit Liabilities	3,480	3,472	3,438	3,441	3,518	3,532
<b>Total</b>	<b>3,618</b>	<b>3,612</b>	<b>3,575</b>	<b>3,582</b>	<b>3,651</b>	<b>3,670</b>
Less: Cash at Banks and Deposit Companies	40	39	37	43	36	40
BD\$ Money Supply	3,578	3,573	3,538	3,538	3,614	3,630
% Change on Previous Period	0.2%	1.0%	0.0%	-2.1%	-0.4%	1.1%
<b>% Change Year-on-Year</b>	<b>-1.0%</b>	<b>-1.6%</b>	<b>-1.5%</b>	<b>0.0%</b>	<b>2.1%</b>	<b>2.3%</b>

*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 Profile – Combined Banks and Deposit Companies (Unconsolidated)

(BD\$ millions)	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Deposit Liabilities	3,480	3,472	3,438	3,441	3,518	3,532
Less:						
Loans, Advances and Mortgages	(3,518)	(3,515)	(3,576)	(3,578)	(3,608)	(3,641)
Surplus/(deficit) Deposits	(39)	(43)	(137)	(138)	(90)	(109)
<b>Percentage of Deposit Liabilities Loaned</b>	<b>101.1%</b>	<b>101.2%</b>	<b>104.0%</b>	<b>104.0%</b>	<b>102.5%</b>	<b>103.1%</b>

Totals may not add due to rounding.

The liquidity position of Bermuda's banking sector recorded a lower deficit of **-\$39.0 million**. During the quarter, funding from banks continued to support local borrowing, as local customer deposits increased by 0.2% to \$3.48 billion, compared to the modest increase in domestic loans, up 0.1% to \$3.52 billion. The loan-to-deposit ratio in Bermuda dollars remained stable at 101.1%.

### Combined Banks And Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ millions)	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Total Foreign Currency Assets	16,106	17,760	17,481	17,855	17,441	17,887
Less: Other Assets	251	284	274	246	258	271
Less: Foreign Currency Loans to Residents	1,211	1,234	1,053	1,118	1,023	981
Net Foreign Currency Assets	14,645	16,242	16,153	16,492	16,160	16,635
Foreign Currency Liabilities	14,134	15,861	15,653	16,031	15,523	16,054
Add: BD\$ Deposits of Non-Residents	89	92	130	169	184	172
Net Foreign Currency Liabilities	14,223	15,953	15,783	16,201	15,708	16,226
<b>Net Foreign Currency Position</b>	<b>422</b>	<b>289</b>	<b>370</b>	<b>291</b>	<b>452</b>	<b>409</b>

Totals may not add due to rounding. Percentage change may not correspond due to rounding

The net foreign currency position increased during the quarter and rose by **46.0% to \$422.0 million**. The higher outflow of net foreign currency liabilities (down 10.9% or \$1.7 billion) to \$14.2 billion, compared to the decrease in net foreign currency assets (down 9.8% or \$1.6 billion) to \$14.6 billion resulted in a widening of the surplus gap between net foreign currency assets and net foreign currency liabilities.

## C) BANKING

### Banking Sector Assets and Deposits

(BD\$ millions)	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Total Assets	19,904	21,621	21,349	21,769	21,392	21,912
Quarterly Change (%)	-7.9%	1.3%	-1.9%	1.8%	-2.4%	-2.4%
Total Deposits	17,257	19,051	18,786	19,153	18,802	19,233
Quarterly Change (%)	-9.4%	1.4%	-1.9%	1.9%	-2.2%	-3.6%

**Total assets declined by 7.0% to \$19.9 billion, compared to a year ago**, with most of the yearly decrease coming from interbank deposits (down 13.5%) to \$2.1 billion, followed by loans and advances (down 8.6%) to \$8.1 billion and investments (down 4.2%) to \$9.0 billion.

**For the quarter, total assets fell by 7.9%** due mainly to the decline in interbank deposits (down 37.0%), while loans (down 3.3%) and investments (down 2.0%) experienced moderate declines over the same period.

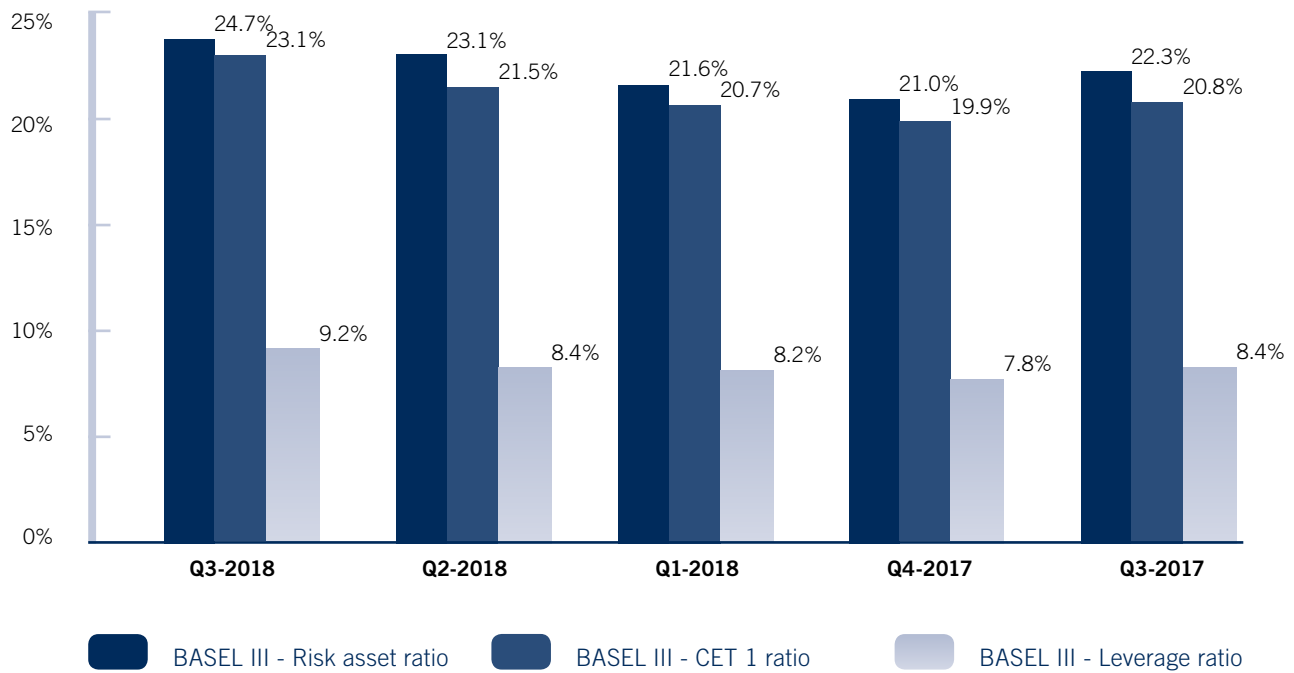
**On the liabilities side, customer deposits held by the banking sector fell by 8.2% over the past year, totalling \$17.3 billion.**

Customer deposit outflows were driven by demand deposits (making up 48.9% of total customer deposits) down 14.9% and savings deposits (making up 33.2% of total customer deposits) down 6.3%; offsetting the 11.4% growth in time deposits (making up 17.9% of total customer deposits) during the same period.

**For the quarter, total customer deposits were down 9.4%**, with demand deposits falling by 13.0% combined with an 11.7% decline in savings deposits. Time deposits continued to show steady growth, rising by 7.7% over the quarter.

## Basel III Ratios

**The sector's regulatory capital levels continued to improve in Q3.** The sector's capital adequacy ratios have consistently increased for each of the last three quarters, staying well above the minimum requirements. Common Equity Tier 1 (CET 1) to RWAs increased by 1.6 percentage points to 23.1%, while the Risk-Asset Ratio (RAR) rose by 1.6 percentage points to 24.7% over the prior quarter.



Period	RAR	RAR Change	CET I	CET 1 Change
Q3-2018	24.7%	1.6%	23.1%	1.6%
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%



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

(BD\$ millions)	Q3-2018				Q2-2018				Q1-2018			
	Total	BD\$	US\$	Other	Total	BD\$	US\$	Other	Total	BD\$	US\$	Other
<b>Assets</b>												
Cash	87	40	30	16	87	39	34	15	84	37	31	16
Deposits	2,067	8	1,090	969	3,283	18	2,117	1,148	2,769	14	1,222	1,534
Investments	9,018	39	7,749	1,229	9,202	47	7,761	1,394	9,313	39	7,689	1,585
Loans & Advances	8,121	3,350	3,141	1,630	8,396	3,389	3,199	1,808	8,553	3,423	3,424	1,707
Premises & Equipment	321	222	88	11	326	223	92	11	326	217	95	15
Other Assets	290	138	81	71	327	146	109	72	304	140	82	82
<b>Total Assets</b>	<b>19,904</b>	<b>3,798</b>	<b>12,180</b>	<b>3,927</b>	<b>21,621</b>	<b>3,861</b>	<b>13,312</b>	<b>4,448</b>	<b>21,349</b>	<b>3,869</b>	<b>12,543</b>	<b>4,938</b>
<b>Liabilities</b>												
Demand Deposits	8,436	1,083	6,207	1,146	9,694	1,073	7,415	1,206	9,065	1,053	6,574	1,437
Savings	5,730	1,572	2,526	1,632	6,487	1,596	3,105	1,786	6,520	1,589	3,024	1,907
Time Deposits	3,091	806	1,482	803	2,870	786	1,343	741	3,201	784	1,452	966
<b>Sub Total - Deposits</b>	<b>17,257</b>	<b>3,461</b>	<b>10,216</b>	<b>3,580</b>	<b>19,051</b>	<b>3,454</b>	<b>11,864</b>	<b>3,733</b>	<b>18,786</b>	<b>3,426</b>	<b>11,050</b>	<b>4,310</b>
Other Liabilities	611	273	250	88	536	272	190	74	573	280	132	161
<b>Sub Total - Liabilities</b>	<b>17,869</b>	<b>3,734</b>	<b>10,466</b>	<b>3,668</b>	<b>19,588</b>	<b>3,727</b>	<b>12,054</b>	<b>3,808</b>	<b>19,358</b>	<b>3,706</b>	<b>11,182</b>	<b>4,471</b>
Equity & Subordinated Debt	2,035	1,986	76	-27	2,033	1,965	92	-24	1,991	1,943	72	-24
<b>Total Liabilities and Capital</b>	<b>19,904</b>	<b>5,720</b>	<b>10,542</b>	<b>3,641</b>	<b>21,621</b>	<b>5,692</b>	<b>12,145</b>	<b>3,783</b>	<b>21,349</b>	<b>5,648</b>	<b>11,254</b>	<b>4,447</b>

(BD\$ millions)	Q4-2017				Q3-2017				Q2-2017			
	Total	BD\$	US\$	Other	Total	BD\$	US\$	Other	Total	BD\$	US\$	Other
<b>Assets</b>												
Cash	87	43	27	17	90	36	36	17	90	40	32	18
Deposits	3,243	12	1,995	1,236	2,390	17	1,293	1,079	2,914	31	1,369	1,514
Investments	9,323	39	7,860	1,424	9,410	40	7,766	1,604	9,386	40	7,797	1,549
Loans & Advances	8,514	3,464	3,317	1,733	8,886	3,499	3,515	1,871	8,890	3,554	3,321	2,015
Premises & Equipment	343	232	97	14	346	237	94	16	348	237	93	18
Other Assets	258	124	76	59	270	121	65	83	283	123	103	57
<b>Total Assets</b>	<b>21,769</b>	<b>3,914</b>	<b>13,372</b>	<b>4,483</b>	<b>21,392</b>	<b>3,951</b>	<b>12,770</b>	<b>4,671</b>	<b>21,912</b>	<b>4,025</b>	<b>12,715</b>	<b>5,171</b>
<b>Liabilities</b>												
Demand Deposits	9,696	1,092	7,344	1,260	9,913	1,144	7,494	1,275	9,700	1,137	7,242	1,321
Savings	6,444	1,572	3,045	1,828	6,114	1,586	2,772	1,755	6,639	1,599	3,045	1,995
Time Deposits	3,012	766	1,360	886	2,775	776	1,190	808	2,893	783	1,340	771
<b>Sub Total - Deposits</b>	<b>19,153</b>	<b>3,429</b>	<b>11,749</b>	<b>3,975</b>	<b>18,802</b>	<b>3,507</b>	<b>11,457</b>	<b>3,839</b>	<b>19,233</b>	<b>3,519</b>	<b>11,627</b>	<b>4,087</b>
Other Liabilities	635	327	205	103	484	256	97	131	648	307	206	134
<b>Sub Total - Liabilities</b>	<b>19,787</b>	<b>3,756</b>	<b>11,954</b>	<b>4,078</b>	<b>19,286</b>	<b>3,763</b>	<b>11,554</b>	<b>3,970</b>	<b>19,880</b>	<b>3,826</b>	<b>11,833</b>	<b>4,221</b>
Equity & Subordinated Debt	1,982	1,908	95	-22	2,106	1,994	140	-27	2,032	1,898	158	-25
<b>Total Liabilities and Capital</b>	<b>21,769</b>	<b>5,664</b>	<b>12,048</b>	<b>4,056</b>	<b>21,392</b>	<b>5,757</b>	<b>11,693</b>	<b>3,942</b>	<b>21,912</b>	<b>5,724</b>	<b>11,991</b>	<b>4,197</b>

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)

**Total market capitalisation of the BSX (excluding funds) was \$378.1 billion at the end of Q3-2018, down \$32.1 billion from the \$410.2 billion recorded in Q2-2018.** The quarterly decline was attributed mainly to changes in the trading values of several large, international companies. During the quarter, the volume of shares traded amounted to 2,522,834 (compared to 1,186,428 shares traded in Q2-2018 and 3,311,854 shares traded in Q3-2017.) The traded value for Q3-2018 was \$37.6 billion, an increase of 108.4% from the \$18.1 billion recorded in Q2-2018, and up 4.8% from the \$35.9 billion recorded in Q3- 2017. The valuation of domestic firms constituted 0.9% of the total market at the end of Q3-2018, with domestic market capitalisation amounting to \$3.6 billion (up \$341.4 million from the previous quarter; and up \$875.3 million year-on-year).

**At the end of Q3-2018, the market capitalisation of insurance-linked securities (ILS) on the BSX stood at \$24.1 billion, representing 65.0% of the global stock of outstanding ILS deals.** At quarter-end, a total of 91 ILS deals (comprising 147 tranches) was listed on the BSX. Global market capitalisation of ILS rose to \$36.9 billion, as \$2.5 billion in new issuances outpaced \$1.3 billion in maturing bonds during the quarter.

### Selected Stock Market Performance Indicators\*

*In % unless indicated otherwise*

	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
<b>Price Return<sup>1/</sup></b>						
BSX	2.10	2.10	4.70	2.89	0.44	0.81
BSX - Insurance	-0.80	-1.70	1.10	0.28	-1.51	1.04
DJII	1.90	0.30	0.10	3.45	1.32	0.79
<b>Return Volatility</b>						
<b>Annualised Standard Deviation<sup>2/</sup></b>						
BSX	2.80	2.70	2.50	3.01	4.57	4.47
BSX - Insurance	2.30	2.20	2.20	2.26	1.56	1.22
DJII	2.50	2.40	2.10	1.47	1.72	1.93
<b>Trading Volume/Market Capitalisation<sup>3/</sup></b>						
BSX	0.50	0.30	0.30	0.21	0.32	0.42
DJII	6.80	8.00	9.20	6.98	6.79	7.04
<b>Real Dividend Yield<sup>4/</sup></b>						
BSX	6.90	6.50	7.00	7.10	6.25	4.79
DJII	-0.50	-0.50	-0.10	0.08	0.37	0.44

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.

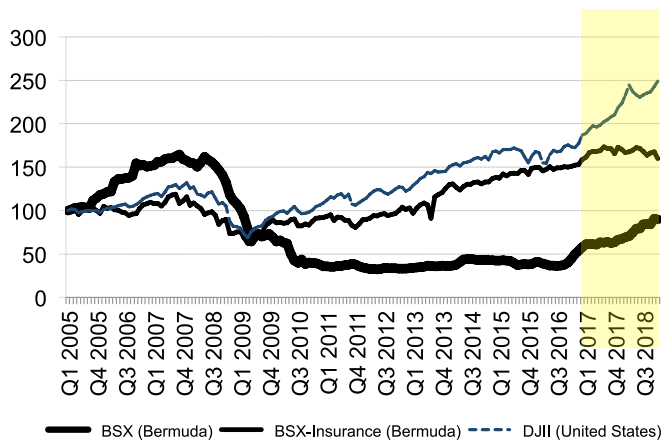
5/ Quarterly average of month-on-month dividend yield adjusted for headline inflation in Bermuda and the United States, respectively.

**The overall performance of the BSX was up by 2.1% compared to the prior quarter.** The table on p.8 provides a summary of selected indicators of stock market performance over the last six quarters (Q2-2017 to Q3-2018) and compares 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 in Bermuda's international business sector). For the quarter, the BSX index recorded a positive return of 2.1%, equalling the price return in the prior amount. The annualised volatility was 2.8% (up marginally from the 2.7% in Q2-2018), while the trading volume was higher, rising to 0.5% of market capitalisation. The BSX index continued to outperform the DJII which recorded a quarterly return of 1.9% with an annualised return volatility of 2.5% (up from 2.4% in Q2-2018). The return for the insurance sub-index (BSX-Insurance) was -0.8% during the quarter compared to -1.7% in Q2-2018, while the volatility was up slightly to 2.3% during the quarter.

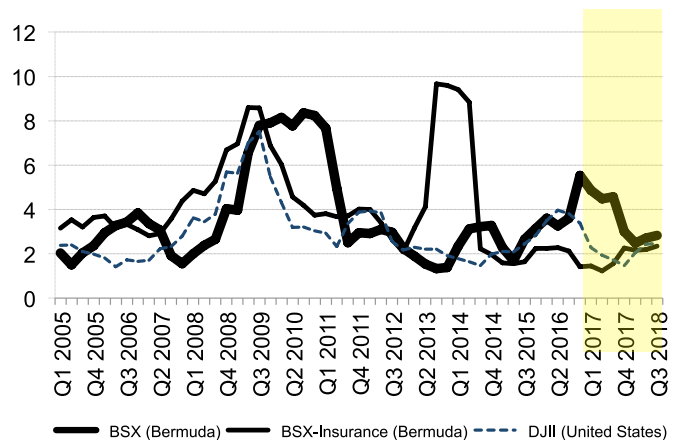
**The following charts show the BSX quarterly closing price level (indexed to Q1-2005 as base year), the annualised return volatility, the dividend yield (in both nominal and real terms), and the trading volume relative to market capitalisation up to Q3-2018 (Charts 1-4).** Dividend payouts remained high and were above the DJII for a ninth consecutive quarter. The aggregate dividend yield of stocks listed on the BSX was up 0.4 percentage points to 6.9% 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 BSX average quarterly return volatility (as a measure of risk) was comparatively higher than that of the DJII.

*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.*

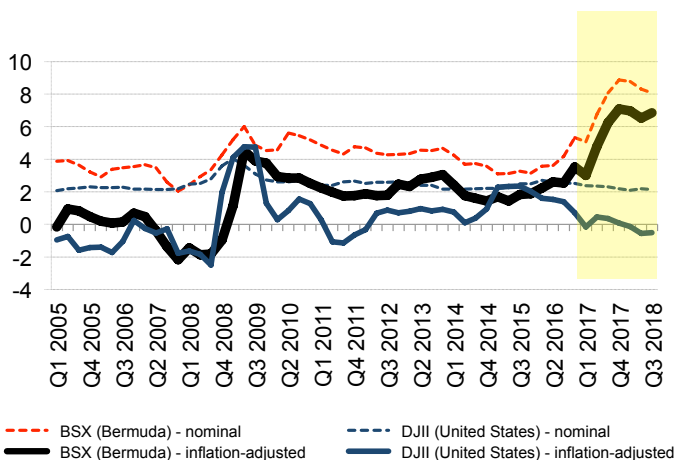
**Chart 1. Price Level, indexed (Q1-2005=100)\***



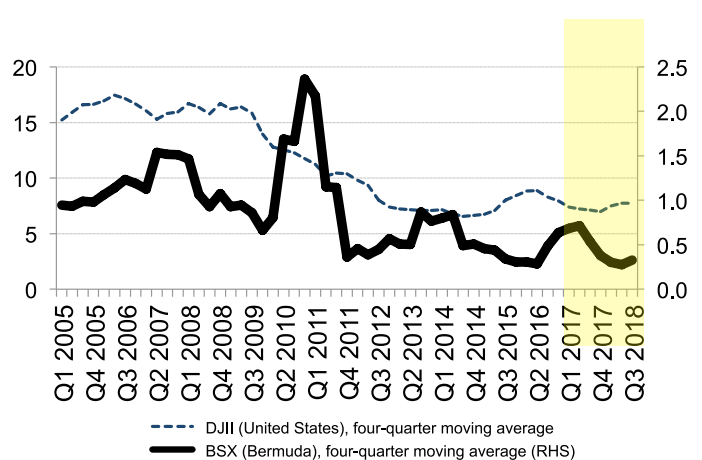
**Chart 2. Annualised Return Volatility\***



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



**Chart 4. Ratio Between Trading Volume and Market Capitalisation\***



\*Note: Charts are in line with Q3-2018 data.

## E) INVESTMENT FUNDS

### Investment Fund Statistics

(BD\$ billions)	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
Administered Funds	6	6	6	6	7	7
Class A Exempt Funds	66	64	64	61	41	41
Class B Exempt Funds	41	40	39	38	27	26
Exempted Funds	8	9	14	19	54	58
Institutional Funds	259	262	264	270	278	277
Standard Funds	145	146	146	149	153	154
<b>Total Number of Funds</b>	<b>525</b>	<b>527</b>	<b>533</b>	<b>543</b>	<b>560</b>	<b>563</b>
<b>Net Asset Value (NAV)</b>	<b>\$165.04</b>	<b>\$168.19</b>	<b>\$144.66</b>	<b>\$161.54</b>	<b>\$162.50</b>	<b>\$152.88</b>

The period Q2-2018 to Q3-2018 saw a small decrease in the total number of funds (a reduction of 0.4%). The portfolio saw an overall decrease in the total Net Asset Value (NAV) of 1.9% or \$3.1 billion. The decrease in the total NAV can be attributed to a decrease in funds combined with redemptions and negative performance results.

**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

	Q3-2018	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017
<b>Companies*</b>	213	208	193	228	204	202
<b>Exempted Partnerships</b> (partnerships established in Bermuda to carry on business in or from within Bermuda)	24	76	30	39	18	10
<b>Overseas Partnerships</b> (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	0	0	0	0	0
<b>Overseas Permit Companies</b> (overseas companies applying for permits to carry on business in or from within Bermuda)	2	20	2	16	2	4
<b>Total Applications Approved</b>	<b>239</b>	<b>304</b>	<b>225</b>	<b>283</b>	<b>224</b>	<b>216</b>

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

## G) INSURANCE

### Insurance Registrations (Q3-2018)

During the third quarter of 2018, the Authority registered 16 (re)insurers. This compares to 10 (re)insurers registered during the same period last year.

Name	Date	Type
<b>Registrations in July 2018</b>		
Acra Re Ltd.	6-Jul-18	C
Acra Re Ltd.	6-Jul-18	3A
Oaktown Re II Ltd.	12-Jul-18	SPI
Cal Phoenix Re Ltd.	23-July-18	SPI
Bellemeade Re 2018	23-July-18	SPI
FloodSmart Re Ltd.	23-July-18	SPI
<b>Registrations in August 2018</b>		
Medley Re Ltd.	15-Aug-18	3A
<b>Registrations in September 2018</b>		
Prestige International Insurance Limited	4-Sept-18	3
Resolution Re Ltd.	7-Sept-18	E
Matterhorn Re Ltd.	14-Sept-18	SPI
Warwick Re Limited.	18-Sept-18	E
First Atlantic Reinsurance Ltd.	20-Sept-18	2
Home Re 2018-1 Ltd.	24-Sept-18	SPI
SD Re Ltd.	24-Sept-18	SPI
Bellemeade Re 2018-3 Ltd.	24-Sept-18	SPI
Klara Re Ltd.	27-Sept-18	3A
<b>Total Registrations</b>		
Insurers: 16		

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 Q3-2018)**

*The following section provides the main findings from a review of quarterly public US GAAP filings of (re)insurers that fall within group wide supervision 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 third quarter of 2018 was marked by lower claims activity while firms returned to profitability with no catastrophe loss activity in Q3-2018.** The combined ratio dropped 29.4% for the quarter standing on average at 101.3% due to lower losses and increases in the aggregate expense ratio. Pricing dynamics in the market do not seem to have changed dramatically. M&A activity further consolidates the Bermuda market into a market of fewer but larger players, while the tightening monetary policy stance of the Fed is set to continue for the following months.

**Bermuda (re)insurance groups improved their asset base by 3.8% q/q.** Bermuda (re)insurers produced a gross profit of \$0.5 billion despite having a combined ratio above 100.0%. The aggregate combined ratio stood at 101.3% compared to 143.4% in Q3-2017. The loss ratio dropped by 38.6% q/q while the expense ratio increased by 7.0%.

**Reserve leverage increased by 2.4% q/q and financial leverage increased by 1.8% q/q.** Total equity increased by 1.9% q/q while reserves increased by 4.3%, thus increasing reserve leverage. The faster increase of assets compared to the drop of equity increased financial leverage. Net Written Premiums to Equity, which is a very rough inverse measure of solvency, increased by 8.6% q/q reaching 63.0%.

**The investment portfolios of Bermuda (re)insurance groups produced a low Return on Investment (RoI)** close to 0.7%, an increase of 21.1% q/q. Return on Equity (RoE) stood at 0.7% in Q3-2018. As a proxy for liquidity, the sum of cash and high quality “AAA”-rated securities represent 138.6% of claims for Q3-2018, a decrease of 5.7% q/q.

**Table 1.** Select Financial Soundness Indicators (FSIs)

<i>(In % unless indicated otherwise)</i>	2018			2017		2017	2016	Change (%)	
	Q3	Q2	Q1	Q4	Q3	FY	FY	QoQ	YoY
<b>Capital Adequacy and Asset Quality</b>									
<b>Assets</b> (In US\$ billions)	<b>122.6</b>	121.9	122.0	119.6	118.2	<b>119.6</b>	<b>106.5</b>	3.8	12.3
<b>Reserves to Assets</b> (Reserve Ratio)	<b>56.3</b>	56.1	56.7	56.5	56.0	<b>56.5</b>	<b>51.9</b>	0.5	8.8
<b>Reserves to Equity</b> (Reserve Leverage) <sup>1/</sup>	<b>200.5</b>	199.7	205.3	199.4	195.9	<b>199.4</b>	<b>158.2</b>	2.4	26.0
<b>Assets to Equity</b> (Financial Leverage) <sup>2/</sup>	<b>356.3</b>	355.7	362.4	353.0	350.0	<b>353.0</b>	<b>304.7</b>	1.8	15.9
<b>Net Written Premiums(NWP) to Equity</b> <sup>3/</sup>	<b>63.0</b>	62.7	62.9	59.8	58.0	<b>59.8</b>	<b>53.7</b>	8.6	11.3
<b>Profitability and Actuarial Issues</b>									
<b>Gross Profit</b> (excl. capital gains) (In US\$ billions)	<b>0.5</b>	1.1	1.0	0.2	-1.8	<b>0.0</b>	<b>2.9</b>	-	-
<b>Investment Income to Net Income</b>	<b>231.2</b>	69.8	173.2	445.8	-28.8	-	<b>62.1</b>	-	-
<b>Combined Ratio</b>	<b>101.3</b>	88.9	88.9	105.3	143.4	<b>109.6</b>	<b>93.1</b>	-29.4	17.8
<b>Average Claims to Reserves</b> <sup>4/</sup>	<b>2.4</b>	2.4	3.1	3.1	2.9	<b>2.1</b>	<b>2.5</b>	-18.6	-18.1
<b>Return on Equity</b>	<b>0.7</b>	2.2	0.8	0.3	-4.5	<b>0.0</b>	<b>7.6</b>	-	-
<b>Return on Investment</b>	<b>0.7</b>	0.7	0.7	0.7	0.6	<b>2.5</b>	<b>2.4</b>	21.1	6.7
<b>Cash and "AAA" Assets to Claims</b> <sup>5/</sup>	<b>138.0</b>	123.3	138.8	146.7	146.4	<b>135.3</b>	<b>154.5</b>	-5.7	-12.5

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

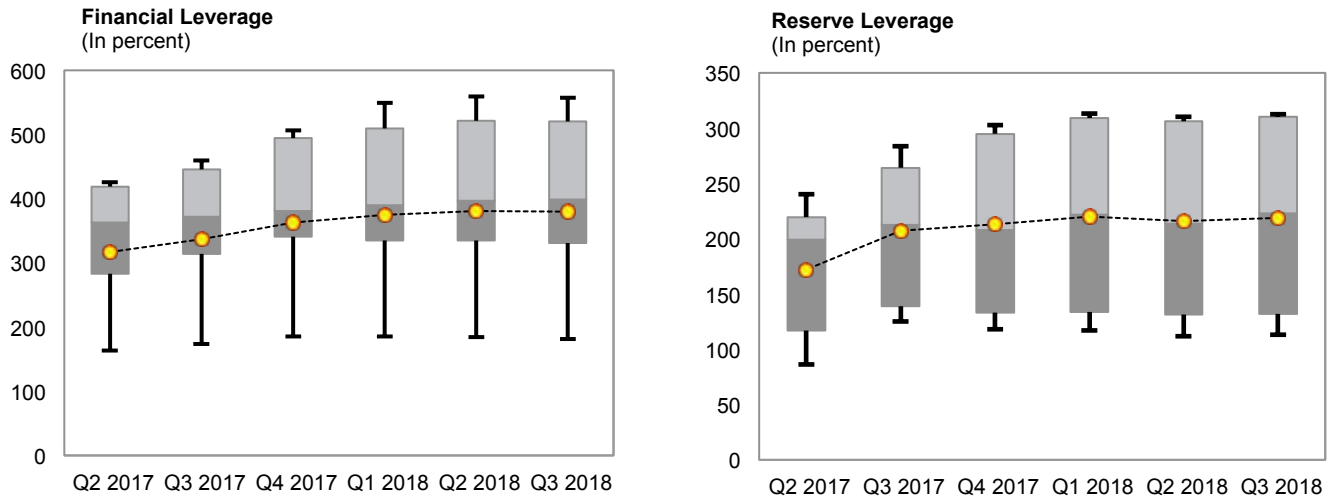
4/. Three-quarter average

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.**



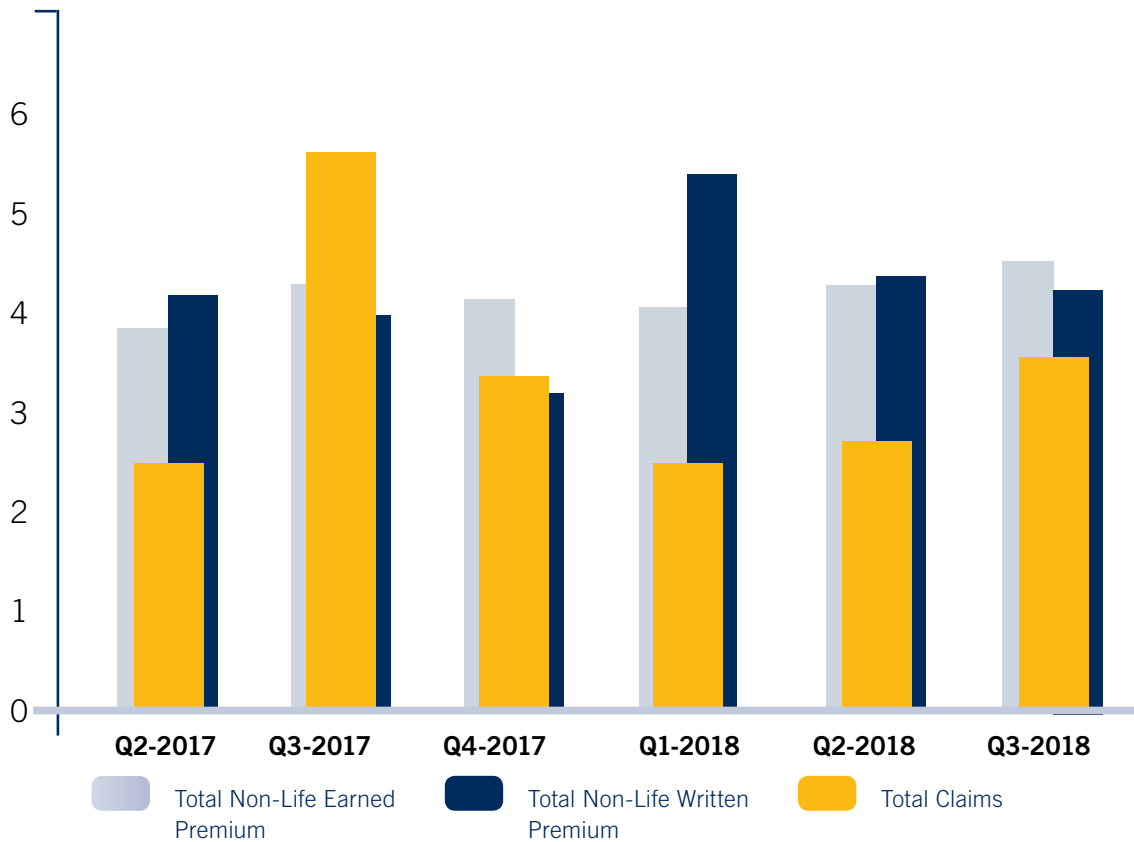
**Figure 1.** Dispersion of Financial and Reserve Leverage



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 (Q2-2017 — Q3-2018)

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



Source: BMA staff calculations.

## SUPERVISION

### **Legislative Amendments Made for Financial Groups**

On 19 July, the Authority issued a notice to industry stakeholders stating that it had identified gaps in Bermuda's Anti-Money Laundering /Anti-Terrorism Financing (AML/ATF) regime related to financial groups which it would address by way of legislative amendments to the POCA regulations. The Authority intends to issue AML/ATF Guidance Notes for financial groups (including designation criteria and materiality factors) in due course. The Guidance Notes will be issued for consultation with industry stakeholders.

### **Consultation Papers Issued for Digital Asset Business**

After undertaking a review of its AML/ATF Guidance Notes to ensure compliance with FATF's revised 40 recommendations, public feedback was sought about four papers specific to the AML/ATF supervision of Digital Asset Businesses (DABs) on 24 July. In addition, Digital Asset Business (Prudential Standards) (Annual Return) Rules and a DAB Annual Return Template were posted, with feedback sought by 14 August 2018. By September, the BMA had also issued a Code of Practice, Statement of Principles and licensing requirements for DABs.

### **Code of Conduct for Insurance Brokers and Agents Proposed**

In August, the Authority proposed a Code of Conduct to assist the Authority in providing appropriate, effective and efficient supervision and regulation of Insurance Intermediaries, specifically Brokers and Agents. The Code will come into effect immediately when published – the established deadline for compliance is 30 June 2019. In addition, on 6 September the Authority finalised its expectations for entities that wished to operate within its Insurance Regulatory Sandbox, as well as eligibility criteria. An Application Form checklist was also published simultaneously.

### **Business Activities Expanded for Non-Licensed Persons (NLPs)**

With the Proceeds of Crime (Miscellaneous) (No.2) Act 2018 coming into effect on 7 September 2018, the list of business activities required to register as NLPs was expanded to include lending, leasing and financial guarantees. Businesses carrying out the prescribed lending, financial leasing and financial guarantee activities that did not send in their NLP registration form before 7 December 2018 would be subject to enforcement action. The BMA has registered NLPs for AML/ATF since 2009 (mostly for the securities sector) with around 400 NLPs currently listed on the BMA website.

### **Unified Enforcement Statement of Principles Issued**

The BMA consolidated its 2010 and 2012 Enforcement Statement of Principles into a unified Enforcement Guide. The purpose of the Guide was to explain when and in what circumstances the Authority will consider taking enforcement action. The Guide took effect from the date of publication – 10 September 2018.

### **BMA Outlines Supervisory Approach to ML/TF Risks**

On 20 September, the Authority published an occasional paper to share its experience with the global regulatory community about its development of a risk-based framework for identifying, assessing and understanding money laundering (ML) and terrorism financing (TF) risks within Bermuda's (re)insurance sector. A summary of this paper was featured in the FATF's Risk-Based Approach (RBA) Guidance Paper for the life insurance sector.

### **BMA Participates in World Investor Week for Second Year Running**

On 24 September, the Authority commemorated the International Organization of Securities Commissions' (IOSCOs) World Investor Week (WIW) by publishing a Smart Investor tip sheet with helpful information about becoming an informed investor. The BMA was pleased to continue its support for IOSCO's WIW and congratulated the Bermuda Stock Exchange for spearheading and organising WIW events locally.

### **Notice to Regulated Entities on Delegation of Governor's Functions for Sanctions**

On 25 September, the BMA issued a notice to its regulated entities noting that certain International Sanctions functions had been delegated from the Governor to the Attorney-General and Minister of Legal Affairs. The practical implications of this notice were that a newly-created unit within the Ministry of Legal Affairs– i.e., the Financial Sanctions Implementation Unit–was now the administrative touch point for all matters relating to Targeted Financial Sanctions in Bermuda.

## INTERNATIONAL

The BMA engaged with many international stakeholders and standard setters within Q3-2018, including participating in the Moscow Committee meetings of the International Association of Insurance Supervisors (IAIS) where a number of papers were approved for public consultation, including version

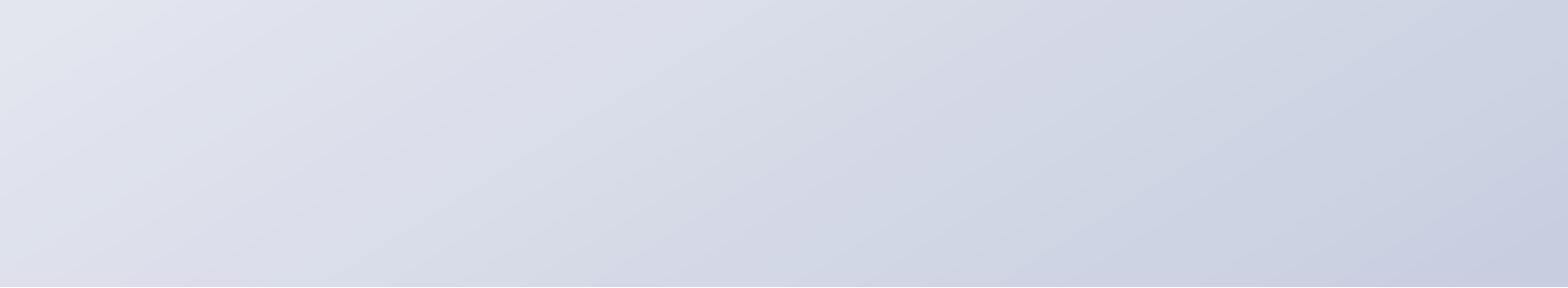
2.0 of the International Capital Standards (ICS). The BMA appeared on a panel at the IAIS Global Seminar discussing the 'Holistic Framework' for mitigating systemic risk. The session focused on global monitoring and how the current state of play on macroprudential surveillance will evolve. Additional panel discussions took place on ICS, the new framework for internationally active insurance groups, FinTech, Cyber & Inclusive Insurance.

The Annual BMA/National Association of Insurance Commissioners (NAIC) bilateral meeting was held in Boston in coordination with the NAIC summer meetings. During the bilateral, the BMA and NAIC updated and exchanged views on topics such as innovation & technology; ICS; and revisions to the Credit for Reinsurance Model legislation. During the summer meeting sessions, the NAIC held a public Q&A session where stakeholders were invited to give feedback on the latest drafts.

The BMA also engaged with the European Commission at a meeting in Brussels. Discussions focused on the review of the Solvency II framework and any potential implications for equivalent third countries.

## 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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