

Bermuda's role in the international capital market

Economic Background

Bermuda is located in the Western Atlantic with a land mass of 53 square kilometers and a population of 62,000. From the very early days of settlement in the 17th Century, Bermuda has been engaged in some form of international economic activity. From whaling, ship-building and salt-raking during the 17th Century, to export of spring vegetables to the United States in the 19th Century, international commerce has been an enduring feature of Bermuda's economic history.

During the 20th Century, tourism was the principal source of jobs. However, during the last half of the 1990s, employment in hotels, restaurants, and other travel-related sectors declined appreciably. In contrast, employment levels in the expanding financial services and international business sectors were on a rising trend.

In the 21st Century, international business activity and the provision of business services have strengthened their positions as the leading sectors of Bermuda's economy. Bermuda's Gross Domestic Product was estimated at \$5.8 billion¹ in 2007. The two leading sectors helped to sustain an average annual growth rate of 4.8 per cent during the period 2000-2007.²

The Bermuda Tax System is consumption-based

Bermuda has a long-established and highly efficient tax system that has been in place since the 19th Century. One of the first legislated taxes, the Revenue Act 1898 that made provision for the collection of customs duty, remains in effect today.³ Other forms of indirect taxes including payroll tax, passenger taxes, and property tax, together with annual fees for international companies, generated \$813 million (or 84 per cent) of the estimated \$966 million in total revenue in 2008/09.⁴

In Bermuda, the ratio of total Government tax receipts in relation to GDP was approximately 17.8 per cent in 2007.⁵ For the United States and Canada this tax ratio was in the range of 19.5 per cent to 20.5 per cent of GDP in 2007.

The tax structure is an element of Bermuda's success, and it should be evaluated in objective economic terms. The tax system was shaped for efficiency and fairness to Bermudian taxpayers. It was not designed to attract mobile capital from other countries.

The Bermuda Monetary Authority Monetary Authority Act 1969

The Bermuda Monetary Authority (the "Authority") was established in 1969 under the Bermuda Monetary Authority Act, 1969. The Authority is responsible for the supervision, regulation, and inspection of financial institutions operating in



and from within Bermuda. The Authority also issues currency; manages exchange control transactions; assists other agencies with the detection and prevention of financial crimes and advises the Government and other public bodies on financial and monetary matters. The Bermuda Stock Exchange is regulated by the Bermuda Monetary Authority.

The Authority has developed a programme of risk based financial regulation that it applies to the supervision of banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses and insurance companies which is supported by a programme of onsite supervision.

Anti-Money Laundering

Bermuda has had a long standing commitment to Knowing its Clients ("KYC") dating back over 50 years. Subsequent to World War 2, legislation was put in place requiring persons wishing to establish companies in Bermuda, to provide details on beneficial owners to the authorities. Over the years, the legislative framework in Bermuda has been updated and enhanced and currently, anyone wishing to do business in or from within Bermuda through any type of corporate structure is subjected to vetting by both the service provider and the regulatory authority, the Bermuda Monetary Authority. Further transfers of shares by non-Bermudians are also subject to review and/or control. This has resulted in a strong KYC culture within the financial services community and an emphasis on "quality" rather than "quantity".

Bermuda has legislation dealing with anti-terrorist financing and for enforcing international sanctions. In addition, there is a Memorandum of Understanding (MOU) which deals with the enforcement of UN sanctions.

The International Monetary Fund in its 2007 review noted that "the criminalization of money laundering and the financing of terrorism is generally comprehensive, with offenses applying to both natural and legal persons, and to the requisite predicate offenses."

¹ Bermuda dollar is pegged at par with U.S. dollar.

² National Economic Report of Bermuda 2008, Table 2 page 18.

³ Revenue Act 1898, Revised Bermuda Laws, Volume 5.

⁴ Government of Bermuda, Budget Statement 2009/10, Table II, page 25.

⁵ Total receipts includes \$929 million in taxes, licenses and fees booked to the Government Consolidated Fund plus about \$98 million of social insurance contributions that goes into the contributory Pension Fund for payment of pension and allowance to senior citizens.



In the mid 1980s, Ace Ltd and XL Capital Ltd were formed for the sole purpose of providing excess liability cover to the US market. The provision of other lines of cover such as directors' and officers' liability soon followed. In 1988 Centre Re was formed to provide the innovative structured reinsurance. These companies chose to incorporate in Bermuda because of speed to market, proximity to the New York markets and Bermuda's links to the United Kingdom.

Following the loss of capacity in the U.S. market after the 1992 Hurricane Andrew, eight property catastrophe reinsurers entered the market. In the late 1990s, Arrow Re (Goldman Sachs) and Lehman Re (Lehman Brothers) were formed to facilitate reinsurance access to capital markets. These were followed by financial guarantee companies that provide guarantees for debt securities.

Bermuda Model

To be successful in the competitive global arena, an international financial centre must be efficient, flexible, and ready to adapt to international developments and opportunities. At the same time, it must commit the resource to provide good governance, proper regulation and effective oversight. Together these factors characterise a sound financial centre. Businesses seek to do business in a country that is sound and credible, and known internationally for probity, endurance, and market-driven solutions. Bermuda is a cardinal example of this brand.

The roster of 'blue chip' companies that have chosen to locate in Bermuda and to conduct their business under its umbrella, including those with strong links to Lloyds of London, is strong testament to the Country's reputation.

In summary, Bermuda has made a positive contribution to international tax cooperation and transparency. In addition, global financial stability has been enhanced by Bermuda's role in creating and sustaining an effective reinsurance market. The Country has aided the spread and diversification of insurance risk and the efficient allocation of capital.

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Bermuda has been placed in the lowest risk category in the most recent assessment by the US State Department on vulnerabilities and threats to the US national security and the stability of the global financial system, posed by money laundering and terrorist financing.

International Cooperation: Information exchange is an area in which the Ministry of Finance has been working diligently for several years.

In the year 2000, Bermuda gave a commitment to the Organization of Economic Cooperation and Development (OECD) to uphold the standards of transparency and exchange of tax information. In making the commitment, Bermuda confirmed its longstanding position that it does not adopt or promote harmful tax measures. Further, Bermuda does not inhibit disclosure of vital tax and money-laundering information to its international partners, nor does it have bank secrecy legislation.

Bermuda participated fully in the OECD's development of a model tax information exchange agreement (TIEA) that was adopted in 2002. Bermuda's leadership role in establishing the OECD Model TIEA was assisted by its experience as a partner of the United States of America in a long-standing TIEA that was signed in 1988.

In 2003 Bermuda responded favourably to a request to negotiate a TIEA with Australia and thereafter accepted requests from New Zealand, the United Kingdom and Mexico in 2005, and from Germany, the Netherlands and the Nordic group in 2006.

In April 2009, Bermuda is scheduled to sign TIEAs with the Nordic Countries and New Zealand. A TIEA signing with Germany is pending. Therefore Bermuda will have a total of 12 signed TIEAs in 2009, with further signings anticipated in 2010.

The Bermuda Insurance Market

In the 1960s, Bermuda was a pioneering domicile for captive insurance companies. Bermuda remains the second largest domicile, after the U.S., for captive companies.