

Bermuda Provides Essential Insurance That Supports the UK Economy

Bermuda Insurers Are Liable for 60%+ of the Losses From the UK's Largest Mainland Catastrophic Explosion -- Buncefield

Bermuda Regulates its Insurers With International Standards

Bermuda is a Transparent and Cooperative Jurisdiction

Bermuda's global insurers and reinsurers provide important insurance and reinsurance market support in all the world's major economies. Bermuda's market leading insurers are members of the *Association of Bermuda Insurers and Reinsurers (ABIR)* and they include 12 of the top 40 global reinsurers as reported by Standard and Poor's. These companies wrote global gross written premium of \$61 Billion US on a capital base of \$65 Billion US at yearend 2008.

Bermuda's market expertise lies in highly volatile business lines: classes of business that are characterized by infrequent claims with high severity. In addition to reinsurance, examples of such business include: professional liability, directors and officers liability, energy, natural disaster risk and terrorism risk. These are lines of business which many insurers find difficult to write and as a result Bermuda's companies have been able to fill a market need. With four of the top five reinsurers in the world being European, Bermuda's reinsurers provide an important source of diversification in reinsurance capacity – something that is highly desired in the insurance world.

United Kingdom Market Impact

United Kingdom consumers and businesses benefit from greater competition and lower policyholder costs as a result of the role of Bermuda insurers and reinsurers. Bermuda insurers and reinsurers also support the UK's global position as a center for specialty insurance services through their partnerships with the Lloyd's Market. Specifically with regard to the United Kingdom, Bermuda controlled insurance groups:

- Will likely pay an estimated 60%+ of the insured liability claims for the UK's largest ever peacetime catastrophic explosion – the 2005 Buncefield oil terminal explosion and fires. Based on current gross liabilities, Bermuda controlled insurers protect an estimated £404 of £577 million in liabilities under insurance contracts with the Total Oil and Gas Company;
- Wrote 30% of the 2008 premium at Lloyds of London – a total of £5.4 billion;
- Provided 40% of the property catastrophe reinsurance purchased by UK insurers; that market share translates into £4 billion of coverage to help rebuild after catastrophic losses from windstorms and flooding;
- Provided 25% of the property per risk market: 10% on a cross border basis from Bermuda and 15% via European subsidiary corporations; this market represents coverage for individual claims events that would be in addition to the catastrophe risk coverage;
- Provided 22% of the property pro rata reinsurance purchased by UK insurers: 7% on a cross border basis from Bermuda and 15% via European subsidiary corporations; pro rata reinsurance is important because it allows an insurer to provide insurance coverage without having to rely on or raise additional capital of its own; in this capital constrained market pro rata reinsurance is very important to support the normal economic growth in business as well as to allow new entrants into a market the opportunity to grow and compete for business;

- Employ more than 4,000 people in the UK.

Sixteen of ABIR's 23 members have UK licensed insurance companies.

Bermuda Meets or Exceeds International Insurance Regulatory Standards

The Bermuda Monetary Authority (BMA) is the insurance regulator for these companies and it fully cooperates with the UK Financial Services Authority (FSA). Furthermore, Bermuda's:

- Insurance regulatory framework has been found by the International Monetary Fund (IMF) to be "highly observant" of international solvency regulation standards;
- BMA is a full and active participant in setting solvency regulatory standards as developed by the International Association of Insurance Supervisors (IAIS);
- BMA insurance regulation continues to match emerging standards in the EU Solvency II Directive. Recent changes include implementing a risk-based solvency framework, requiring enhanced financial disclosure and setting international best practice for catastrophe risk stress testing. It is anticipated that Bermuda insurance regulation will be deemed equivalent to EU standards when Solvency II is implemented in 2013;
- BMA willingly enters into Memoranda of Understanding (MOU) assuring regulatory cooperation with other country's regulators or regulatory associations; examples include the UK FSA, the IAIS, the US NAIC, the state of New York. The BMA is open with sharing the conclusion of its on-site program with other relevant regulators and has already hosted a number of supervisory colleges for major insurance groups, anticipating the new Financial Stability Forum requirements.

Bermuda is a Transparent and Cooperative Jurisdiction

Bermuda is committed to meeting OECD standards with regard to transparency and cooperation on international tax law enforcement. Bermuda has:

- A Tax Information Exchange Agreement (TIEA) in place with the United Kingdom; similarly it has one in place with its largest trading partner the United States;
- Signed 18 TIEA's and has concluded negotiations on more;
- For more than 50 years had in place anti-money laundering laws establishing the "know your customer" principle;
- Continued to enhance its legislative and regulatory framework for anti-money laundering to keep pace with changing international standards and has recently completed a strengthening of standards, providing tougher enforcement powers to the BMA;
- Been active in the Egmont Group, in fact, was one of the founding members of this group of global Financial Intelligence Units organized to coordinate actions in anti-money laundering and anti-terrorist financing;
- Been active in the Financial Action Task Force (FATF) via the Caribbean Financial Action Task Force, an affiliated group of jurisdictions working to coordinate anti-money laundering initiatives;
- Been cited by the OECD and the US Treasury as a cooperative jurisdiction with regard to tax law enforcement;
- Never been known as a bank secrecy jurisdiction; nor is it an offshore banking domicile; there are only four banks in Bermuda, one of which is owned by HSBC.

Taxation

Bermuda has historically had in place a tax system based on consumption of goods and services. Notably:

- Bermuda's system of taxation was not designed to attract financial services; it has had the same system of taxation since the 19th century;
- The absence of a corporate income tax does not provide a necessary and sufficient condition for labeling a jurisdiction as a 'tax haven'; the OECD notes that its focus is on transparency and cooperation in tax law enforcement, but it does not object to "low or no income tax" jurisdictions, nor does it oppose tax competition;
- In Bermuda, the ratio of total government receipts in relation to GDP was approximately 17.8% of GDP in 2007 compared to US (federal) 19.5% and Canada 20.5%.

Doing Business in Bermuda: Business Purpose, Vetting and Corporate Registrations

ABIR companies are companies of substance (not name plates) employ 31,000 worldwide, 16,000 in US, 4,000 in the UK, 7,000 in Europe, 1,800 in Bermuda). Many ABIR members have their headquarters in Bermuda and all conduct underwriting operations in Bermuda. The BMA vets all applications to incorporate, conducting due diligence and know your customer checks on the ultimate beneficial owners for all new companies, not just financial service firms. This is significantly more rigorous than other on and off-shore centers and clearly exceeds international best practice.

- Bermuda is an attractive insurance domicile because of its:
 - Ability to respond to market conditions and global events, i.e. speed to market;
 - Legal environment -- including access to the UK Privy Council as the court of last resort;
 - Favorable tax regime -- an advantage but one that can be duplicated elsewhere;
 - Highly rated and efficient regulation; commitment to international standards
 - Intellectual capital, center of insurance expertise;
 - Proximity to US;
 - Able to conduct business in two time zones.
- Bermuda goes for quality and not quantity in corporate registrations:
 - BMA vets all applications to incorporate - exceeds international best practices in the vetting standards;
- Number of Bermuda company registrations from 2003-2006 is small compared to other jurisdictions:

○ Bermuda	1,482
○ Cayman	9,658
○ BVI	58,054
○ Delaware	121,757.

As the *Economist* magazine noted in March 2009, it is easier to register a corporation with lax proof of identity in the United Kingdom and the United States than it is in Bermuda.

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