

## MID-ATLANTIC HAVEN FOR INSURERS

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**B**ERMUDA, known throughout the world as a tourist resort of the very highest quality, has emerged during the past thirty years as a premier financial and business centre off shore. The way in which our small, enterprising country has developed its own special blend of tourism and international business — with a particular flair for insurance — is the subject of this article.

Until the very early part of this century, the island was very much an agricultural community, exporting fresh vegetables to the eastern United States. This trade diminished after the First World War and tourism, first in the winter months and then year-round, gradually became the principal export industry, responsible today for approximately 60% of the country's \$850 million in export earnings.

It was in 1935 that the first international company was incorporated in Bermuda — a holding company for the Life-Saver candy firm!

That company, and the thousands which followed in the next 55 years, were drawn to the island by its unique combination of qualities. These included strategic location, ease of access, political and economic stability, low levels of taxation, a favourable regulatory framework, sophisticated services, excellent communications and a well educated, highly motivated and friendly resident population. Not surprisingly, tourists over the years have also been attracted to this mid-Atlantic haven by many of these same qualities.

Currently, there are 7315 international companies registered in Bermuda. The majority of these businesses operate as exempted companies, which means that they are exempt from the local requirement that companies be at least 60% Bermudan-owned. These exempted companies can be (and usually are) completely foreign-owned. Entirely free of exchange controls, they can move funds in and out of the island without restriction and are not subject to corporate, income or capital taxes.

The biggest business group numerically is corporate and personal investment holding

companies. However, the most important group from the point of view of generating jobs and income for Bermuda is that of insurance.

The first international insurer to register in Hamilton, the capital, was American International which came to the island in 1949. Today, there are 1302 such companies on our register, all but 100 of which are captives, that is, subsidiaries of major corporations created to insure the primary risks of parental and affiliated companies.

Only about 270 of the more than 7000 international companies registered in Bermuda actually have a physical presence on the island in the sense that they employ staff locally. Approximately 120 (or 44%) of this number are insurance-related companies. More than half of the \$350 million in export earnings generated by international business is produced by these companies, which also employ more than two thirds of the 1250 or so Bermudians in the international company sector.

It is clear from these data that Bermuda's international business industry is heavily dependent upon insurance and related companies. We have more than twice as many captives as North America and the Caribbean together, and over one third of all captives registered in the world are to be found in Bermuda.

Because of a soft insurance cycle the worldwide number of new captives registered in the past three years has fallen dramatically from the record numbers recorded in the late seventies and early eighties. However, Bermuda still managed to attract an additional 45 captives in 1989 and a further 51 last year, almost twice as many as our nearest competitor.

While the net number of insurance companies in Bermuda has been more or less stable for the past two years, principally due to merger and acquisition activities, the business activity of these companies has increased impressively during this period. Gross insurance premiums rose by 7.6% to \$12 000 million in 1989 (the last year for which complete figures were available at the time this article was

prepared) and net premiums rose 12% to \$9400 million during this same period. By the end of 1989, total assets of the insurance companies registered in Bermuda stood at \$44 500 million, a 15% increase over 1988. Capital and surplus rose even more impressively, by 20% to \$17 400 million. The ratio of net premiums to capital and surplus — a key indicator of the financial health of an insurer — remains at much less than 1:1, demonstrating the conservatism of the island's insurance industry.

These statistics illustrate the maturity of our insurance industry, the confidence that insurers have in Bermuda as a domicile, and the attractiveness of our island to large insurance entities marketing a variety of innovative insurance products. One of the keys to Bermuda's success as an insurance centre is the close relationship which exists between the government and the private insurance sector.

Historically, both parties have worked as partners in the development of the industry. As the Minister of Finance, working through the Department of the Registrar of Companies, I have ultimate responsibility for the regulation and supervision of the insurance industry. In fulfilling this responsibility, I rely heavily upon the advice and support of the private sector. The Insurance Act 1978 enshrined this relationship in law by establishing an Insurance Advisory Committee (IAC) for the purpose of "advising the Minister on matters connected with the discharge of his functions under the Act". The IAC is not restricted to advising only on matters referred to them by the minister. They may, of their own volition, make representations to the minister on any matter relevant to the insurance industry.

Further evidence of the cooperation between the Bermudian government and the insurance sector is to be found in the way in which applications for the registration of new insurance companies are processed. A sub-committee of the IAC reviews all such applications and the recommendations of this review group are forwarded to the Registrar of Companies and to me. Thus the government benefits from the knowledge and experience of industry professionals.

Certainly, the competition for new business is intense from domiciles both on shore and off shore and it is generally acknowledged that a more aggressive approach to the marketing of Bermuda will be necessary in the future. We are not afraid of competition. Bermuda has always been receptive to the changing needs of the insurance industry. An example of this responsiveness can be seen in the impressive growth of financial reinsurance and excess liability insurance on the island over the past five years — meeting the changed insurance needs of the late eighties. Today, the three largest companies representing these markets on the island — ACE, Excel and Centre Re — have upwards of \$5000 million in assets.

A committee, drawn from both the private

sector and the government, is currently in the process of producing a development strategy to guide our insurance industry through the remainder of the nineties and into the twenty-first century. The thrust of this strategy will be to build on the strengths which have given Bermuda a "critical mass" of expertise, unmatched in any other domicile. Quality of service has always been our trade-mark and this is what we will continue to market in an innovative way in the future. The potential opportunities for cooperation with alternative market-places are exciting and will be actively pursued by Bermuda.

The attention which Bermuda gives to its insurance industry is not at the expense of other aspects of our international business. Traditionally, 75% to 80% of this business has come from North America, but Bermuda has now set its sights on broader horizons in Europe and the Far East. The recent extension of the OECD Convention to Bermuda should greatly strengthen the island's global initiatives.

The trend is already well underway with registration of over 130 Hong Kong companies, about half of which are listed on the Hong Kong exchange and all of which have followed Jardine Matheson's 1985 decision to come to Bermuda. For European companies, Bermuda offers a familiar British jurisdiction in a location convenient to the United States.

I am confident that tourism and international business will remain the pillars of Bermuda's economy. Both sectors are interdependent to a significant extent — neither is likely to prosper without the other. My hope is that in the not too distant future the relative economic contributions of these industries will approach a 50:50 ratio, compared with the current 60:40 ration in favour of tourism. I expect this to be achieved not at the expense of tourism but rather through an accelerated rate of growth for international company business as compared to tourism.

The offering of excellent service, whether to tourists or international businesses, has always been Bermuda's trade mark and will remain so as we look ahead to the twenty first century with enthusiasm and confidence. ■

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