



The Bermuda Society

Winter 2013 / Spring 2014

Newsletter - Issue 18

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In Memoriam

Sir Richard Ground, OBE 17 December 1949 – 22 February 2014

Sir Richard was born in Stamford, England and educated at Oakham School in Rutland, Lincoln College, Oxford, and the Inns of Court School of Law.

He was called to the Bar in Gray's Inn, in 1975; was appointed Queen's Counsel (Cayman Islands) in 1987; and was elected a Bencher of his Inn in 2011.

He began his legal career in private practice at 1 Brick Court, Middle Temple from 1976 to 1983 and specialised in media law.

He left London in 1983 for the Cayman Islands where he served as Crown Counsel. He was HM Attorney General from 1987 to 1992.

Sir Richard was appointed Puisne Judge of the Supreme Court of Bermuda, serving from 1992 to 1998. His next career move took him to the Turks & Caicos Islands where he was Chief Justice from 1998 to 2004.

He returned to Bermuda with his wife, Dace in 2004 when he was appointed Chief Justice and served in this position for eight years, retiring in 2012.

In other legal appointments, he had begun serving as Justice of the Court of Appeal for Turks & Caicos Islands in 2005 and was appointed to the Court of Appeal in the Cayman Islands in 2012. Effective 01 January 2013, he was appointed to sit on the Bermuda Court of Appeal but his illness overtook him before he could attend his first session.

The Hon. Sir David Gibbons, KBE, JP 15 June 1927 – 30 March 2014

Sir David was Premier of Bermuda from 1977 to 1982 and Finance Minister of Bermuda from 1975 to 1984.

During his stewardship, the legislative foundations were laid for Bermuda's reinsurance industry and modern international business sector.

Sir David presided over a tumultuous period in Bermuda's history and commissioned a social review of Bermuda by the renowned social psychologist and African American Scholar, Dr Kenneth Clarke in 1978. The findings of which lead to the establishment of the Human Rights Commission, the Bermuda Housing Corporation and other significant social programmes.

In 1983, Sir David was Knighted and awarded the Freedom of the City of London; he was also admitted as a Liveryman to The Worshipful Company of Distillers.

Sir David became a Member of the Committee of Management of The Bermuda Society in 1987 and served as Vice Chairman.

Sir David has been Chairman of The Bank of N. T. Butterfield & Son Limited (1986); Chief Executive Officer of Edmund Gibbons Limited since 1954; Chairman of the Board of the Bermuda Monetary Authority from 1984 to 1986.

Sir David was undoubtedly one of Bermuda's great men in politics and finance – he was also a successful businessman and philanthropist.



Summary of Company Results, Year ended 31 December 2013

USD(000's)

ACE Limited

Net income: \$3,758,000
Gross premiums written: \$22,828,000
Combined ratio: 88.0%

Allied World Assurance Holdings

Net income: \$417,880
Gross premiums written: \$2,738,664
Combined ratio: 86.2%

Arch Capital Group Ltd

Net income: \$709,731
Gross premiums written: \$4,196,623
Combined ratio: 85.9%

Argo Group

Net income: \$143,200
Gross premiums written: \$1,888,400
Combined ratio: 97.5%

Aspen Insurance Holdings Limited

Net income: \$329,300
Gross premiums written: \$2,646,700
Combined ratio: 92.6%

Assured Guaranty Ltd

Net income: \$807,564
Gross premiums written: \$241,810
Combined ratio: 42.6%

AXIS Capital Holdings Limited

Net income: \$727,465
Gross premiums written: \$4,697,041
Combined ratio: 91.0%

Catlin Group Limited

Net income: \$436,176
Gross premiums written: \$5,309,373
Combined ratio: 85.6%

Endurance Specialty Holdings Ltd

Net income: \$311,915
Gross premiums written: \$2,665,244
Combined ratio: 90.2%

Hiscox Ltd

Net income: \$371,616
Gross premiums written: \$2,656,284
Combined ratio: 83.0%

Lancashire Holdings Limited

Net income: \$190,041
Gross premiums written: \$679,736
Combined ratio: 70.2%

Montpelier Re Holdings Ltd

Net income: \$210,574
Gross premiums written: \$705,970
Combined Ratio: 56.1%

PartnerRe Ltd

Net income: \$664,008
Gross premiums written: \$5,569,706
Combined ratio: 85.3%

Platinum Underwriters Holdings Ltd

Net income: \$223,278
Gross premiums written: \$579,761
Combined ratio: 62.7%

RenaissanceRe Holdings Ltd

Net income: \$665,673
Gross premiums written: \$1,605,412
Combined ratio: 43.8%

Tokio Millennium Re AG

Net income: \$140,026
Gross premiums written: \$897,169
Combined ratio: 83.0%

Validus Holdings Ltd

Net income: \$532,666
Gross premiums written: \$2,401,106
Combined ratio: 71.2%

XL Group plc

Net income: \$1,059,916
Gross premiums written: \$7,741,135
Combined ratio: 92.5%

Source: ABIR / Aon Benfield





Summary of Company Results, 1Q2014

ACE Limited

Net income: US\$734 million
P&C combined ratio: 88.8%

Allied World Assurance Holdings

Gross premiums written: US\$901.4 million
Net income: US\$177.0 million
Combined ratio: 79.9%

Arch Capital Group Ltd

Gross premiums written: US\$1,295 million
Net premiums written: US\$1,065 million
Net premiums earned: US\$860 million
Underwriting income: US\$132 million
Combined ratio: 84.7%

Argo Group

Gross premiums written: US\$463.1 million
Net income: US\$40.2 million
Combined ratio: 95.5%

Aspen Insurance Holdings Limited

Gross premiums written: US\$855.5 million
Combined ratio: 87.6%

AXIS Capital holdings Limited

Gross premiums written: US\$1.8 billion
Net premiums written: US\$1.7 billion
Net premiums earned: US\$946 million
Combined ratio: 91.9%

Catlin Group Limited

Gross premiums written: US\$2.01 billion
Net premiums earned: US\$1.03 billion

Endurance Specialty Holdings Ltd

Gross premiums written: US\$1,157.5 million
Net premiums written: US\$798.7 million
Net investment Income: US\$41.0 million
Combined ratio: 81.3%

Lancashire Holdings Limited

Gross premiums written: US\$316.7 million
Net premiums written: US\$204.4 million
Combined ratio: 66.4%

Montpelier Re Holdings Ltd

Net premiums written – up 5% in comparison to a year ago
Operating income: US\$72 million
Net investment income: US\$13 million
Combined ratio: 50%

PartnerRe Ltd

Net premiums written: US\$1.7 billion
Net premiums earned: US\$1.3 billion
Net investment income: US\$117 million
Non-life combined ratio: 83.9%

Platinum Underwriters Holdings Ltd

Net income: US\$63.7 million
Gross premiums written: US\$138.3 million
Net premiums written: US\$135.8 million
Net premiums earned: US\$126.3 million
Net investment income: US\$17.7 million
Net realised losses on investments: US\$0.5 million
Combined ratio: 53.0%

RenaissanceRe Holdings Ltd

Gross premiums written: US\$705.3 million
Net income: US\$151.0 million
Operating income: US\$136.1 million

Validus Holdings Ltd

Gross premiums written: US\$1,012.0 million
Net income: US\$162.4 million
Combined ratio: 68.3%

XL Group plc

Gross premiums written – up 1% compared to the prior year quarter
Net income: US\$255.7 million
Net operating income: US\$238.6 million
Combined ratio: US\$87.7%

Source: Aon Benfield / Company Reports



Aon Benfield Aggregate (ABA) Report 2013

Global reinsurance capital grew by seven percent last year to reach \$540 billion by the end of 2013, according to global reinsurance broker Aon Benfield.

The figure, quoted in the Aon Benfield Aggregate (ABA) report, includes both traditional and alternative forms of capital available for insurers to trade risk with.

The firm's latest study found that capital reported by the ABA group of 31 leading reinsurers increased by six percent (\$20 billion) to \$337 billion, driven primarily by \$34 billion of net income. Repatriation of equity capital in the form of dividends and share buybacks rose by 15 percent to \$20 billion, partly reflecting the increasing engagement of third party capital.

Business is also growing for reinsurers with gross premiums written by the ABA growing five percent to \$199 billion, driven by the impact of acquisitions and growth in emerging markets.

All of the 31 companies, more than half of which are active in the Bermuda market, made an underwriting profit last year, helped by a 38 percent fall in the disclosed catastrophe losses and a 23 percent increase in favourable prior-year reserve development.

The challenges of a low-interest rate environment were clear in the report with the yield on investments falling 30 basis points to 3.1 percent — down by a third from 2006.

Mike Van Slooten, head of Aon Benfield's International Market Analysis team, said: "Reinsurers have reported resilient results in an increasingly competitive marketplace. Most are now adapting their business models to accommodate the increasing availability of lower cost capital, thereby enhancing both their risk transfer capabilities and their offering to clients.

"We expect capital management activity to accelerate, as the advantages become more apparent."

Source: Aon Benfield / The Royal Gazette 16April2014

[View all Aon Benfield Analytics research and publications at www.aonbenfield.com](http://www.aonbenfield.com)

ABIR 2013 year-end figures

Member companies of the Association of Bermuda Insurers and Reinsurers (ABIR) saw their profits increase in a year of low catastrophe activity.

Releasing underwriting results, ABIR said profits totalled \$11.7 billion in 2013 for the 18 of 21 member companies that participated in its survey, up from \$9.4 billion in 2012.

The 18 re/insurers wrote \$70.1 billion in global gross written premium (up from \$66.4 billion in 2012) on a capital and surplus base of \$95.4 billion (up from \$95.2 billion in 2012). The gross premium to equity ratio for the group remained at 0.7 to 1.

"The \$11.7 billion in net income demonstrated earnings power during a year characterised by low catastrophe losses," ABIR president Bradley Kading said.

"But this number was still below net income reported by the membership in 2009.

"ABIR members reported their largest group total equity base in the eight years in which data has been collected, even though the number of members reporting was reduced by one due to an acquisition completed in 2013.

"ABIR members have welcomed the interest of alternative capital providers including pension funds into the risk taking business and have focused in 2013 on expanding markets given the availability of new capital in taking on insurance and reinsurance risk."

The companies underwrite out of centres in Europe, Asia, and North and South America, as well as Bermuda.

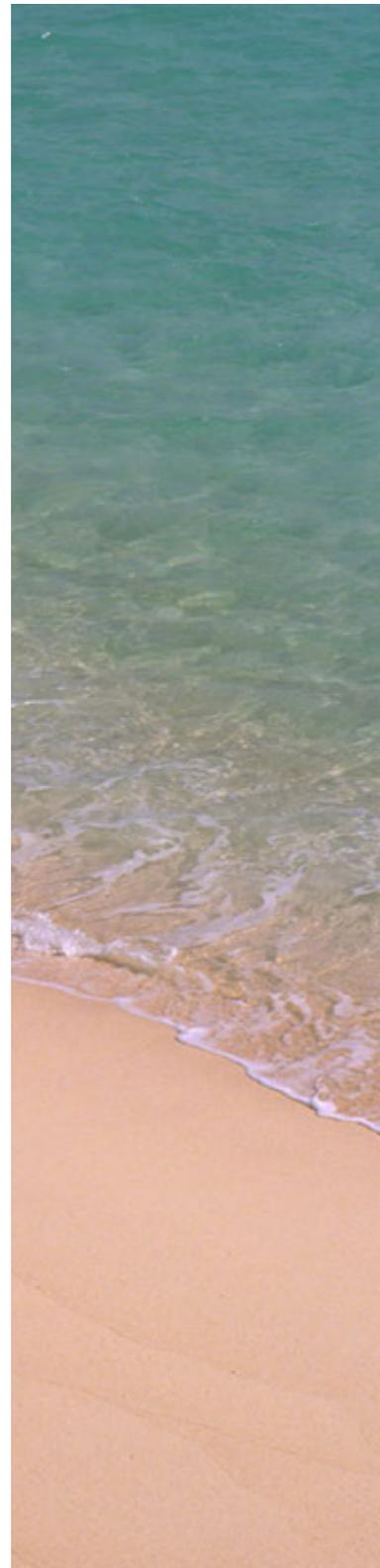
Source: ABIR / The Royal Gazette 17April 2014

Bermuda Monetary Authority (BMA) – Captive Insurers

Bermuda remains the world leader among offshore captive domiciles — despite recording a decrease in the number of captives on its register.

The Bermuda Monetary Authority (BMA) confirmed yesterday that there were 831 captive insurers based in Bermuda at the end of last year — 25 fewer than a year earlier.

However, 24 new captives were established on the Island last year — double the number recorded in 2012. Of those, some 29 percent were from Latin America — a region where Bermuda has focused great efforts to attract business — and one third emanated from the US, traditionally the Island's major source of captive business. Captive insurance companies are set up to provide insurance coverage to their parent corporations.





Shelby Weldon, the BMA's director of licensing and authorisation, said in an interview that the decrease in the overall number of captives was principally a result of the BMA "cleaning up the register" by removing some ageing captives that were dormant.

"Because of the maturity of the jurisdiction, Bermuda has a good percentage of captives that are more than 25 years old," Mr Weldon told *The Royal Gazette*. "We could have left them being dormant, but we thought it was important to speak with their owners and establish whether these captives were in ongoing use."

Mr Weldon rejected the idea that the decline in the number of captives last year was due to some of them moving domicile to other jurisdictions.

"I'm only aware of about 20 of those over the past four years and that's probably balanced out by the captives that have left other jurisdictions to come to Bermuda," he added.

Last week, rival offshore jurisdiction the Cayman Islands announced it had 761 captives licensed as at the end of last year after adding 39 new licensees in 2013. Of these, financial regulator the Cayman Islands Monetary Authority (CIMA) reported that 406 were "pure captives" and 148 were "segregated portfolio companies".

Mr Weldon said it was difficult to compare rival captive jurisdictions and added that Bermuda did not include special purpose insurers in its captive numbers, unlike some jurisdictions, for example. Nor does the Island include segregated cells, or rent-a-captives "fronted" by Bermuda captive management companies.

"When you're comparing captive jurisdictions, then it's not the number of captives on the register that's important as much as the volume of business they do," Mr Weldon said.

On that score, Bermuda rates highly. The most recent figures, calculated from regulatory filings, show Bermuda's captive sector wrote \$20.3 billion of gross premiums, had total assets of \$85.3 billion and total capital and surplus of \$42.1 billion.

Cayman's captives wrote \$12.9 billion in premiums last year and held \$69.2 billion in assets at the end of the year, according to CIMA figures.

Onshore, a number of US states have set up regulatory frameworks to attract captive insurers. Vermont, the most successful of these, announced the licensing of its 1,000th captive last October. In 2012, Vermont's captive sector wrote \$26 billion in gross premiums. Last year, it attracted 29 new captives.

In the US in particular, political pressure has mounted against companies sending business offshore. Mr Weldon said the important thing was that insurance professionals knew the advantages that Bermuda could offer as a

captive jurisdiction, such as its intellectual capital and its huge reinsurance market.

The 24 captives that registered on the Island last year was double the number recorded in 2012. In addition, 16 commercial insurers set up last year and a record 51 Special Purpose Insurers (SPIs). This compares to 14 commercial insurers and 27 SPIs being recorded the previous year.

"Achieving this level of business in today's competitive environment reinforces Bermuda's unique ability to service the full spectrum of high-end, global re/insurance business," Mr Weldon added.

"It also demonstrates the continued relevance of Bermuda as a jurisdiction as the market seeks diversification in alternative risk transfer."

Source: *The Royal Gazette* 17 March 2014

Lloyd's reports FY 2013 Results, 26 March 2014

Lloyd's, the world's specialist insurance and reinsurance market, announced a profit of £3.2 billion for 2013.

This compares with a profit of £2.8 billion in 2012. Gross written premium income increased to a new high of £26.1 billion, with a combined ratio of 86.8% and a pre-tax return on capital of 16.2%.

Lloyd's capital position further strengthened with net resources of £21.1 billion. Ratings remain strong at A+ with Standard & Poor's and Fitch, and A with A.M. Best. All three ratings agencies have Lloyd's on positive outlook.

2013 was a benign year for insured catastrophes, with major claims to Lloyd's totalling £873 million. Despite this, total net incurred claims were £9.6 billion in 2013, down from £10.1 billion the previous year. UK flooding claims from 2013 are not expected to result in significant exposure for Lloyd's.

Lloyd's new CEO, Inga Beale, said: "Disciplined underwriting and a benign year for major catastrophes have enabled us to outperform our peers and post this outstanding profit of £3.2 billion. From this base, the Lloyd's market has a great opportunity to expand in the underinsured, high growth economies around the world. We have started to build the foundations for this growth, as set out in our long term strategy 'Vision 2025', through close engagement with the market. We will continue to support our expert underwriters, through efficient operations, to attract capital and talent from these high growth economies."



Chairman of Lloyd's, John Nelson, said: "These are outstanding results for Lloyd's and are a tribute to the talent and professionalism in the Lloyd's market. Whilst we saw few catastrophe claims in 2013, continued low interest rates saw reduced investment income and high levels of capital continuing to flow into the market which put pressure on prices."

"These conditions look set to persist. I therefore expect increased competitive pressure on the market to remain in 2014. This underlines the need for continued underwriting discipline as we seek to maintain and reinforce our position as the global centre for specialist insurance and reinsurance."

Financial Highlights:

- ❖ A profit before tax of £3.2 billion (2012: £2.8 billion)
- ❖ A combined ratio of 86.8% (an improvement of 4.3 percentage points from 91.1% in 2012) compares favourably with our peer group's combined ratio of 93.4%
- ❖ Total resources of the Society of Lloyd's and its members at £59.5 billion (2012: £59.3 billion)
- ❖ Capital, reserves and subordinated debt and securities £21.1 billion (2012: £20.2 billion)
- ❖ Central assets of £2,384 million (2012: £2,485 million)
- ❖ Controlled premium growth of 1.6%, after taking account of the impact of foreign exchange and year on year risk adjusted rate change
- ❖ Investment return of £839 million (2012: £1,311 million)
- ❖ Prior year reserve surplus releases of £1,575 million (2012: £1,351 million)

Source: Company press release 26 March 2014

Society Events

Lecture Meetings, Seminars and Receptions

The programme of events for 4Q2014 is currently being arranged – members will be advised as soon as dates are finalised.

AGM and Annual Lunch 2014

The Society's Annual General Meeting for the year 2014 and Annual Lunch has been arranged to take place at Guildhall in the City of London on Thursday, 26 June 2014 with guest speaker Paul Jardine, Chief Operating Officer, Catlin Group Limited.

Annual Dinner for Members and Guests 2014

The Society's 28th Annual Dinner for Members and Guests has been arranged to take place in The Adam Room at Lloyd's on the evening of Thursday, 13 November 2014 – The Hon. E. T. Bob Richards, JP, MP, Minister of Finance, Government of Bermuda will give the keynote speech.

Bermudian Students attend the Society's Dinner 2013 at the House of Lords

The Royal Gazette carried the following piece on 09 December 2013:

STUDENTS GET A SEAT IN THE LORDS

Bermudian students in the UK were lauded at the House of Lords by The Bermuda Society, which offered 20 of them exclusive dining alongside leading business personalities.

There was no better location than the seat of the UK's Upper House of Parliament. The 104 guests at the 27th annual dinner met in the historic Cholmondeley Room, where a terrace overlooks the Thames.

Lord Waddington - familiar as a former Governor of Bermuda - hosted the event at which Butterfield Bank's Chairman and CEO, Brendan McDonagh was guest speaker.

The welcome speech was delivered by Robert Childs, Chairman of the Bermuda-headquartered insurer Hiscox and Chairman of The Bermuda Society.

Another former Governor, Sir Richard Gozney, delivered the vote of thanks with a toast to Bermuda.

The members and guests included key figures and policymakers from the international business sector, banking and financial services, insurance, reinsurance, management consulting, public relations, and the law and accounting professions – together with Bermudian students hailing from universities in London, Bristol, Durham, Guildford, Oxford and Warwick.

The Bermuda Society is dedicated to forging ties between Bermuda, the UK and Continental Europe – especially in the business arena – as well as exposing local students abroad to the fullest possible range of business heads.

The students' attendance at the Dinner was sponsored by Aon Benfield, Butterfield Private Bank in London, Butterfield Bank in Bermuda, Conyers Dill and Pearman in London, the Bermuda Government's London office, Hiscox, Matheson & Co. Limited and SwissEdge.

Source: [The Royal Gazette 09December2013](#)





BFIS Students – London Visit – July 2014

The Society is delighted to report that it has been able to be of assistance to the Bermuda Foundation for Insurance Studies in helping to arrange a programme of events for the BFIS students' visit to London 05-19 July 2014.

[Secretary](#)

Bermudian Students – Internship Programme

The Society is working actively on its intention to draw upon its wide range of business contacts from within the international business sector, banking and financial services, insurance and reinsurance, and the law and accounting professions – and offer a competitively rated, paid internship programme to Bermudian students currently completing an undergraduate/postgraduate degree in the UK.

[Secretary](#)

BNT-UK and NMB event at the National Army Museum in London on the evening of Thursday, 05 September 2013 – Talk Summary

The importance of Bermuda to British history cannot be underestimated. Following the journey of Christopher Columbus which brought the Americas to prominent attention in Europe, Spain and Portugal set about carving up large empires in the new world. Other European powers, including England coveted the wealth flowing into the Iberian Kingdoms, and set about establishing their own overseas trade interests.

For England, this was through the establishment of Jamestown in Virginia on the east coast of North America. The fledgling colony struggled to survive in the first few years, begging for assistance for investors.

This came in the form of the 'Third Supply', a fleet of nine vessels under the command of Admiral George Somers. The fleet was embroiled into a 44-hour storm which was believed to be the inspiration for Shakespeare's 1611 play 'The Tempest'. Somers's lead vessel, the Sea Venture struck reefs off Bermuda, and was deliberately run aground to save it from foundering. The survivors of the wreck established the first settlement on Bermuda,

and the Sea Venture remains a prominent feature in Bermudian symbology in their honour.

Bermuda's strategic position on the shipping lanes from the new world to Europe became quickly apparent, and the island was made into a fortress to protect it from rival powers, and as a safe harbour for friendly shipping. Its importance grew after the American War of Independence, and it became the Royal Navy's key base in the Western Hemisphere. It was also an important base during that conflict, and it was on Bermuda that the burning down of the White House in the War of 1812 was planned.

The RN facilities continued to be improved, but also needed landward security, leading to the establishment of the first Bermuda militias. However they struggled to maintain recruiting numbers because of the rival maritime industries which constantly demanded manpower.

In order to subsidise the below-strength militias, British regiments rotated garrison duties in Bermuda, as with other colonies. In all, 77 British regiments would serve in Bermuda. Bermuda was also used as an offshore prison in the nineteenth and early twentieth centuries, especially for Boer prisoners of war during the Second Boer War.

In the 1890s the Bermuda Militia Artillery and Bermuda Volunteer Rifle Corps were both formed, taking primary responsibility for local defence. Men from both of these units volunteered to serve in both World Wars, and the BVRC formed an attachment to the Lincolnshire Regiment, with whom they served in WWI. In 1965, both of these units merged to form the new Bermuda Regiment, which remains Bermuda's local defence force to this day.

Bermuda's military history was also briefly explored as it is represented in the collection of the National Army Museum, including the painting of Malabar, the Beresford sketches, Boer Prisoner of War art, Wilcocks's medals, and various photographs and archives.

[National Army Museum, Chelsea, London](#)

05 September 2013



Speech Notes given by David Burns – former Managing Director of Schrodgers Bermuda – at a Lunch and Lecture Meeting in the Members’ Private Dining Room at Guildhall, Aldermanbury in the City of London on Tuesday, 08 October 2013

Time spent in Bermuda

- ❖ ABIC
- ❖ Chamber of Commerce
- ❖ Bermuda Sloop Foundation
- ❖ Windreach (Windreach on the Water)
- ❖ Christchurch in Warwick

It is without a doubt a nice place in which to do business. What you could only do in Bermuda - once upon a time - can now be done in other locations as efficiently and probably more economically.

Internal as well as external competition.

Still living somewhat on past glories and laurels, hoping to by some miracle to maintain the “old ways”, but there are less and less free lunches these days.

An attraction is that it is a wonderful place to live and a great place to bring up children.

But that is not enough

You have to attract talent and it doesn’t have to be home grown

- ❖ The City is full of talent and not all of it is British
- ❖ Talent creates jobs

Forget tourism

- ❖ too many and cheaper alternatives

Forget gambling

- ❖ It will not solve the problem
- ❖ It brings the wrong crowd

Concentrate on strengths although some may be partially hidden.

- ❖ BIOS

- ❖ The Cut

- ❖ Conferences

- ❖ Centre of excellence for investment management particularly in relation to the insurance sector with the growing market for insurance linked securities.

Needs to:

- ❖ Improve services and communication
- ❖ Re-design term limits
- ❖ Introduce a measure of income tax

Bermuda can change without changing.

David Burns

Keynote Address given by Brendan McDonagh, Chairman and Chief Executive Officer at The Bank of N.T. Butterfield & Son Limited at the Bermuda Society’s 27th Annual Dinner for Members and Guests held at the House of Lords on the evening of Wednesday, 20 November 2013

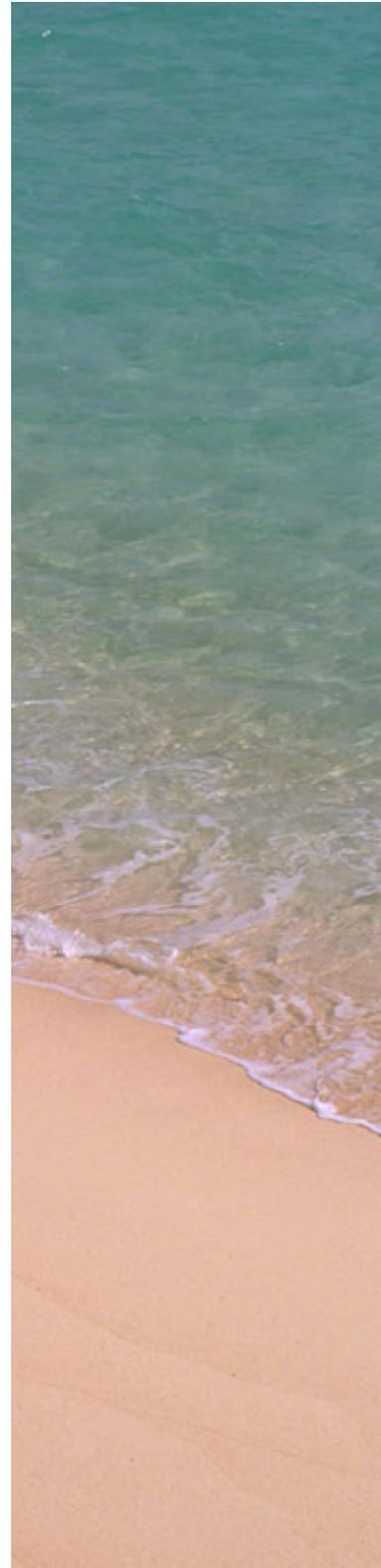
Thank you for the opportunity to speak with you tonight. I am honoured to have been invited to address The Bermuda Society.

I would like to use this opportunity to review with you what’s currently happening in Bermuda and then offer some thoughts about what decision makers in Bermuda might consider as they look to the future and finding ways to continue to help Bermuda grow and prosper.

I note that I have only been resident in Bermuda since January 2012, but my position as Chairman and CEO of one of the island’s major companies has given me the privilege of interacting with a wide cross-section of the community. This local experience, combined with the experience of living in eight other countries and with a still-fresh outsider’s view, has influenced my views on Bermuda’s current situation, its challenges and opportunities.

In terms of context for a discussion of the current business and economic situation, it’s important to understand that Bermuda is a net importer, so keeping the economy running smoothly and growing requires a steady influx of foreign capital. Historically, international business and tourism were the source of that capital and the engines behind economic growth. But, as a service-based economy, as the rest of the world dipped into recession, so too did Bermuda—quickly and drastically. The recession continues into its fifth year in Bermuda.

In response to global economic challenges, we have seen





international business—primarily insurance and reinsurance—scale down or move operations elsewhere, with the result that several thousand expatriate workers and their families have left Bermuda. Estimates are that more than 4,000 people have left the island in recent years. In addition many Bermudians are seeking career opportunities elsewhere.

This has had a direct impact on real estate rentals and demand for goods and services locally, with a knock-on effect on employment in construction, stores, restaurants, schools, etc.

A drop in visitor arrivals from a peak of more than 310,000 in 2007 to less than 270,000 in 2012 (owing to IB retrenching and recessions in the US and the UK (Bermuda's traditional tourism markets)), have also seen hotels struggle.

The Department of Statistics says, officially, upwards of 2,600 jobs were lost between 2010 and 2012; the official unemployment rate at the end of 2012 was 8% (up from 2% in 2008); the real figure may be higher. Concurrently, we have seen public debt soar from six percent of GDP (2007) to 28.5 percent. It is anticipated to reach nearly \$1.5 billion by the end of the year.

So what can Bermuda do in the face of the perfect storm of a shrinking population, high public debt and a dependency for economic growth that is almost entirely external?

I would like to tackle that important question in two parts:

- ❖ a review of some of the current initiatives that are happening in Bermuda to attract business, people and capital to the island; and
- ❖ an exploration of how we might enhance those efforts; taking cues from other parts of the world.

I am pleased to say that, from my perspective, many of the right things are happening in Bermuda to create the conditions that will attract business, and resident and tourist dollars to the island. Bermuda Inc.—the informal public-private apparatus that drove Bermuda's phenomenal growth from the mid 80's to 2007—is getting back to business.

The island elected a new Government in December, and they have quickly addressed many of the issues that international business has cited as impediments to doing business in Bermuda. They have also continued the work of the previous Government to try to ensure that Bermuda is seen as a cooperative, transparent and well-regulated financial centre, and not painted with the "tax haven" brush.

The new Bermuda Business Development Agency, formed from the previous Business Bermuda and Insurance Development Councils was formed in April and has quickly set about organising events to generate

ideas to attract business in a more coordinated and targeted way. A recent financial services meeting of the Business Development Agency led to recommended changes to the Investment Funds Act that were quickly implemented by Parliament. This cleared administrative hurdles and allows new investment funds to be brought swiftly to market in a matter of days. The Business Development Agency has also set up a unique Concierge service for international business to assist them with obtaining professional legal, accounting, human resources and real estate help, and navigate efficiently through the approvals of various ministries and regulatory bodies.

In terms of addressing debt and getting operating deficits under control, the new Government established the independent Spending and Government Efficiency (or "SAGE") commission to examine the structure, procedures and expenditures of the civil service, seeking to improve efficiency and eliminate waste. The SAGE report was delivered to the Minister of Finance on October 31 and the Commission's recommendations are now being considered by the Government.

These initiatives, taken together, reflect that the country is mobilising—across the public and private sectors—to reinvigorate the Bermuda economy. They will—I have no doubt—have a positive impact. But will they be enough to return Bermuda to prosperity?

Amidst a trend of nations making reforms to attract scarce investment dollars, do Bermuda's location, historic strengths as a business centre and the reforms I just discussed go far enough? This leads me to the second area of discussion today: what lessons Bermuda might take from other countries.

Is it time for Bermuda to take a broader look beyond fiscal incentives at what keeps business people from settling and staying in Bermuda and what makes them increasingly willing to move their businesses to other jurisdictions? Is it time for Bermuda to rethink how it defines nationality? Should Bermuda, at this point in its history, continue to define nationality according to issues of the past—land availability, for example—or now by the country's current and future economic needs in the light of the various demographic shifts (namely an ageing population, low birthrate and net emigration)?

Much of Bermuda's wealth and success is owed to foreign capital that flowed into the island and how Bermuda successfully managed that influx. Today foreign capital comes in two forms: financial and human; and they usually arrive (and depart) together. So the current reality is that we need the right environment to ensure both types of capital stay on the island. In the interest of competition for investment dollars, I suggest that it might be time for Bermuda to reconsider the basis on which it grants national status. Understandably, for



Governments, managing issues of nationality are complicated and sensitive.

In the world of sport, there are interesting parallels; some countries have adjusted citizenship policies to foster competitive success. Take, for example, the 1,500 meter squad that competed for the US at the Beijing Olympics; it consisted of a Kenyan, a Somali and a Mexican. More than 50 Nigerian-born athletes compete for other countries at the elite-athlete level. In the UK, 60 of the 542 athletes who represented Great Britain at the London 2012 Games were foreign born.

These “transplant” arrangements can benefit both sides—athletes can free themselves from a lack of developmental facilities, programmes and funding or competitive situations in their home countries that prevent them from rising to the elite level and avail themselves of unique opportunities in the countries they emigrate to. The welcoming countries benefit from talent they may not be able to source from among their homegrown athletes.

We see many examples of how this type of beneficial transplanting of talent can work to support business success, too. Countries like the US, Canada, New Zealand and Australia have attracted and continue to attract skilled individuals as assets in growing their economies. Some might say, “that’s all well and good for the large countries that have surplus of land and natural resources to exploit; it doesn’t work in a place like Bermuda.” This is a valid argument, but look at the example of Singapore, one of Asia’s amazing success stories and an example of economic growth by design that intentionally and necessarily welcomed long-term, permanent human capital.

Today, Singapore ranks as the easiest place in the world to do business and 36% of its population was born elsewhere. Singapore has not lost its sense of national identity through welcoming skilled immigrants.

Like Bermuda, Singapore was a British colony, having only become independent in 1965. Like Bermuda, it is a small island. Yet it has made itself into one of the most important financial centres in the world.

I am not suggesting that Bermuda emulate the Singapore model, but there are lessons to be learned from its success. Inviting a wide diversity of talent and rewarding its success with a path to residency and the full benefits of residency has helped many nations to sustain economic growth, particularly against the backdrop of economic challenges. Defining nationality not from the perspective of where you, your parents or your grandparents were born but along the lines of what your current and potential contributions are, is an approach that can drive success.

Bermuda may be well positioned to consider taking such steps now. Bermuda has made difficult transitions before,

and thrived as a result. Over the past 150 years, Bermuda has reinvented itself multiple times, evolving from a farming economy, to military hub, to tourist Mecca, to reinsurance capital.

And, speaking for Butterfield, I can say confidently that we—and I believe our peers in the business community—are eager to participate in the changes that are occurring now, to support and set the stage for the next chapter of the country’s growth.

Thank you for your time.

Brendan McDonagh

Chairman and Chief Executive Officer

The Bank of N T. Butterfield & Son Limited

Speech given by Matthew Elderfield at a Lunch and Lecture Meeting held in the Members’ Private Dining Room at Guildhall, Aldermanbury, City of London on Thursday, 13 February 2014

Matthew Elderfield is Group Director, Conduct and Compliance at Lloyds Banking Group.

From January 2010 to September 2013 he was Deputy Governor of the Central Bank of Ireland and responsible for financial regulation, prudential, conduct of business and markets supervision of financial services companies in Ireland.

Prior to taking up his position at the Central Bank of Ireland, he was Chief Executive of the Bermuda Monetary Authority (BMA) from 2007-2009, with responsibility for supervision of all financial services companies in Bermuda.

Prior to joining the BMA, he spent eight years at the UK Financial Services Authority (FSA) as a Head of Department in a variety of posts. Before joining the FSA, Matthew Elderfield established the European operations of the International Swaps and Derivatives Association (ISDA) and held posts at the London Investment Banking Association, the British Bankers Association and a Washington-DC based consultancy firm.

It is a great pleasure to be invited to attend this meeting of The Bermuda Society and offer a few brief personal reflections of my time as a regulator in Bermuda and also in Ireland. I am very glad to be able to support the work of the Society. I have fond memories of my period at the Bermuda Monetary Authority, of the beauty of the island





- a picture of Coopers Island Long Bay has pride of place in my flat - and of the kind support I received from many people, including Sir Richard Gozney and Rob Childs. Sir Richard was a source a good advice and moral support during the difficult phase of the banking crisis in Bermuda, which I will talk about in a moment, and I still have fond memories of Rob giving me a master class in reinsurance underwriting and the risks of a soft market. I'm very glad to be able to support them in their current affiliation with the Society.

I would like to take the next fifteen minutes or so to personally reflect on banking bailouts and bail-ins from the perspective of two relatively small countries, Bermuda and Ireland. Bermuda is of course best known as a prominent reinsurance centre and while the financial crisis left a few scars in some parts of that market, principally those insurance companies that had strayed into banking by guaranteeing credit instruments, the insurance and reinsurance industry was mostly resilient and the main focus on work was preparing for international solvency standards.

However, Bermuda also had its own mini-banking crisis and bank bailout. The Bank of Butterfield held a portfolio of structured finance instruments that were subject to increasingly adverse mark to market adjustments, which was eroding the bank's capital position. It became increasingly clear to the BMA that an injection of capital would be required to absorb further losses. A stress testing exercise by the BMA confirmed that fact and sized the necessary injection as at least \$200 million. There followed an intense period of contact between the bank and potential investors, but the list of possible suitors dwindled and then, when Lehmans failed in late 2008, evaporated entirely, creating a very difficult situation and requiring government support.

The then Finance Minister Paula Cox and Financial Secretary Donald Scott did not shirk from the necessary action.

However, the circumstances were very challenging. A deposit guarantee scheme was not in place. Lender of last resort facilities did not exist with any central bank. Most difficult of all was the size of the necessary recapitalisation - \$200 million - relative to the size of the Bermuda annual budget - then \$1.1 billion. Directly funding that sort of an injection would be problematic and instead the decision was taken for the government to guarantee a \$200 million preference share issue, which if I remember correctly was almost entirely subscribed by local residents and businesses.

There were a number of twists and turns in getting the deal over the line. I recall that shortly after the final cabinet meeting there was a leak to local TV and the prospect of a destabilising media report 12 hours before

the official communication sequence was due to kick off. I remember a somewhat fraught conversation with the producer of the TV station about 20 minutes before air requesting that they not run the story in the interests of the Island's financial stability. After a rather intense exchange, to his credit the producer agreed, with only minutes to go before the top of the programme and rushed off to reset his running order.

I'm pretty sure that the Irish or British media would not have been so responsive. As it was, the bailout news broke in an orderly way and the position at Butterfield was stabilised for the time being. There was a breathing space that allowed outside investors to be brought in a year later with a further \$500 million or so injection to further strengthen the capital position.

This Bermuda experience was, in hindsight, a useful dress rehearsal for Ireland. Arriving at the Central Bank of Ireland at the start of 2010 it was already very evident to all observers that the domestic Irish banking system was in a critical position. The Irish banks had become exposed to imprudent commercial and residential property lending during a property boom fuelled by a number of factors. The Irish banks were also, crucially, very exposed to liquidity risk. They had all borrowed heavily in the wholesale financial markets in order to fund their expansion and had perilously weak loan-to-deposit ratios. This wholesale source of funding was vulnerable to changes in investor sentiment and that is indeed what happened in a number of waves. First, and before my time, the Irish government sought to fend off a liquidity crisis by guaranteeing the liabilities of the banking system, including not only depositors but also bondholders.

Then, after my arrival and a first round of surgery on the banks to transfer their stricken commercial property portfolios and to recapitalise them, the euro zone crisis struck in Greece in the spring of 2010. The magnitude of the Irish banks losses, the weakening economic position and the government guarantee meant that Ireland was caught in a vicious bank-sovereign negative feedback loop. A weak economy and falling property prices created worse losses that required government recapitalisation. Government support added to national debt and therefore led to austerity measures to reassure markets. But austerity weakened the economy yet again, fuelling the feedback loop.

At the Central Bank we knew we had a problem and the markets knew we had a problem too. Bond yields rose and in the autumn we experienced a bank run. A wholesale bank run that is. The modern bank run is not manifest by a queue outside a bank branch but by a number on a piece of paper circulated each evening at a central bank. As that number - the tally of outflows from



the banking system - increased, it was clear that Ireland would need support from the EU, ECB and IMF.

What followed was an extraordinary period with more than a few twists and turns as the shape of the EU-IMF bailout was negotiated and then we proceeded to conduct a major stress test and recapitalisation exercise. Time is too short to recap this all, but I can say that I recall very clearly the final round of the negotiations, returning home late at night in a snow storm, having an over-sized glass of wine and looking at that photograph of Coopers Island Long Bay wondering if perhaps I had taken a wrong turn somewhere along the way.

The Government of the day - especially the late Finance Minister Brian Lenihan, a very brave man who was battling cancer at that time - and indeed the current successor Government, took some very hard decisions, as did my boss the Governor of the Central Bank, Patrick Honohan. By the time the recapitalisation process was through, some €64 billion had been injected into the banking system. The 2010 budget deficit was in the order of 30% of GDP. However, the programme of actions that followed to assess and then strengthen the financial position of the Irish banks and also to improve the fiscal position led to a gradual turnaround in market sentiment. Ireland successfully exited the EU-IMF programme at the end of last year and has fully re-entered the bond markets. That has been quite an achievement, which reflects a significant sacrifice by many ordinary Irish men and women.

What lessons can be drawn from this experience across two jurisdictions? Perhaps three: size matters, tools matter and supervision matters.

Size matters in the sense that for a relatively small country, the risks of an over-large large banking system can have critical implications for the fiscal position of a government that is forced to undertake a bailout. That is of course the central lesson of the euro zone crisis and of the banking sovereign feedback loop. In the Bermuda experience, this is illustrated by the limited room for manoeuvre available for providing fiscal support to Butterfield in 2009. I think a few policy implications flow from this. First that it is welcome that the principal Bermuda banks now have the financial support of large well capitalised parents or investors.

Second, Bermuda has been cautious about developing into a large banking centre due to concerns over reputational risk: this is, in my view, a sensible policy and one now reinforced by financial stability considerations. Taking a prudent view on the size of the sector, especially of domestic banks, and of the stand-alone capital and liquidity position of the entire sector is an important lesson.

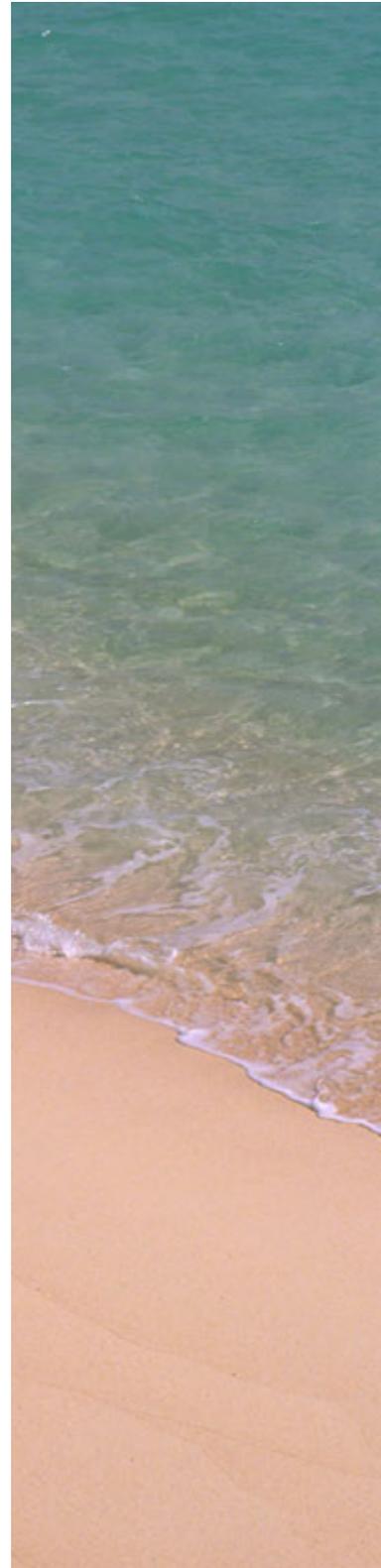
For Europe, the size matters lesson is of course very clear

but is prospectively somewhat uncertain - should we measure the impact of the failure of a bank relative to its country of supervision or to the euro zone as a whole. This is where banking union comes in. Banking union is envisaged as an effort to unify the euro zone banking markets through a single supervisory mechanism and common prudential and resolution tools.

And so to the importance of the right tools. I have mentioned some of the gaps in the Bermuda tool kit in 2009. In Ireland, a well-developed resolution framework - i.e. the ability to continue the critical operations of a bank while apportioning financial losses to equity and bond holders - would have been very useful at the time of the guarantee and could have made a huge difference to the way the crisis unfolded. The post crisis policy initiatives of various bodies have attempted to address this gap, by making banks easier to resolve and by providing the capacity to "bail-in" creditors so that no bank is too big to fail and therefore require taxpayer support.

Bail in, whereby bond holders (or possibly some depositors) bear losses as well as equity holders, is a critical new tool. It was under-used in Ireland due to EU concerns over the implications for bank access to senior debt funding. It was over-used, if you like, in Cyprus, by being applied to retail depositors. The new EU policy framework now tries to get the balance just right. It establishes that if private sector capital is not available to support a distressed bank, bail-in of bondholders should take place before government support. Also such national government support should take place before common European funds are used for a bail out. This is a very important new calibration of the tool set - the right balance between bail-in and national or pan-European bail out - but one that has yet to be tested in a live situation. However, on the horizon the new EU single supervisor is undertaking a stress testing exercise where this may come into play. This will be an important moment for euro zone financial stability later in the year and a test for the ECB as the new euro zone supervisor.

So, finally to the importance of supervision. Good supervision will hopefully prevent the necessity for having to use resolution. Good supervision - that is well-resourced and independent supervisors - is important for Bermuda, both for its banking industry and its insurance industry. The size matters financial stability issue is different for insurers because insurers are fundamentally different types of financial companies to banks and crucially they tend to fail in a very different way (provided they stay away from quasi banking activities). But that said, Bermuda is the home to a sizeable number of important, global insurance groups. Financial distress at one of these companies could, if not managed





effectively, have wider disruptive effects and would certainly have adverse reputational implications for Bermuda.

This underlines the importance of continuing support for the work of the BMA under my able successor Jeremy Cox. In my time in Bermuda I was impressed by the Finance Minister’s determination to preserve the operational independence of the BMA and by the Minister and industry’s support to ensure that it was properly resourced to do its job. I know that has continued after me. My concluding thought is simply to ask that the people in this room do all you can to continue to support high standards of regulation and supervision in Bermuda given its importance to the country’s continuing success.

Thank you.

Matthew Elderfield

Group Director – Conduct and Compliance

Lloyds Banking Group

Masterworks Museum of Bermuda Art – October 2013

History of The Charman Prize

Ever since John Charman moved to Bermuda, he has been very generous in donating his time, resources and efforts to his philanthropic work. Due to his substantial support,



Bermuda’s artists have developed to a standard that is the envy of all similarly sized populations. This had fed and enriched Bermudian culture and nourished the community. Mr Charman’s efforts are felt most keenly through The Charman Prize.

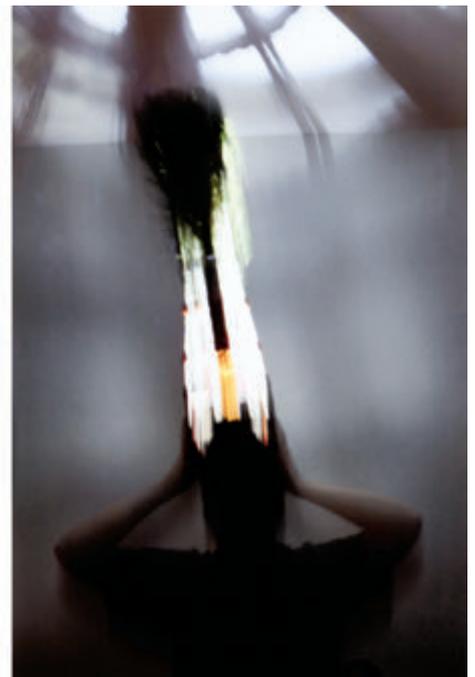
Since the opening of Masterworks Museum of Bermuda Art in 2008, The Charman Prize has been an annual art competition. For the past six years, this patronage has challenged and stimulated all Bermudian artists and artists resident on the Island – a welcome addition to the prize this year was the ability for Bermudians living abroad to submit their work.

Thanks to Mr Charman’s generosity, the competition awards prizes to confer tangible recognition of excellence as well as an opportunity to display the extraordinary range of artistic talent that exists in Bermuda.

The Grand prize winner receives \$10,000 for an artwork that embodies an outstanding example of the judging criteria, which each artist is aware of from the outset. Four additional prize of \$2,500 are awarded to excellent examples of each of the four criteria, as well as 12 honourable-mention prizes of \$100.00 each.

Teresa Kirby Smith won the 2013 Grand prize – she was awarded her prize by John Charman on the opening night of the exhibition on 11 October 2013 together with the

The Charman Prize 2013
Analog Gombey Goes Digital
Teresa Kirby Smith





four category winners and the 12 honourable-mentions. Teresa Kirby Smith's winning photo – Analog Gombey Goes Digital - brought her two disciplines together as one part was shot with an old 'Brownie' Rolleiflex camera and another with a modern digital camera. It depicts a Gombey dancer, making it one of three Gombey-related overall Charman Prize winners in the past six years.

Previous Grand prize winners are:

- ❖ 2008 – Kathy Harriott,
- ❖ 2009 - Graham Foster
- ❖ 2010 - Sabrina Powell
- ❖ 2011 - Andrew Stevenson
- ❖ 2012 - Molly Godet

History of The Masterworks Collection Prize

2013 was the first year Masterworks awarded the Masterworks Collection Prize. The Winner of the prize, Sharon Wilson, had her piece selected and purchased by

The Masterworks Collection Prize 2013 *Untitled – Encaustic on birch ply* Sharon Wilson

the collections committee. The committee felt that Ms Wilson's piece *Untitled – Encaustic on birch ply* would complement the Bermudiana collection.

The committee commented:

“Of the many fine paintings and among the work that focused on a new generation of Bermudians, Sharon Wilson's beautifully composed, sensual encaustic painting stood out. The combination of encaustic – a wax-based medium – layered upon its birch panel connected this modest anonymous profile portrait to an ancient tradition of such painting.”

The Masterworks Collection Prize was awarded to Sharon Wilson by Tom Butterfield on 11 October 2013 - the opening night of the exhibition.

Source: [The Masterworks Museum of Bermuda Art](#)



The Bermuda Institute of Ocean Sciences

Deepgliders: The Next Frontier in Ocean Exploration

In 1872 the H.M.S. *Challenger* embarked upon a four-year scientific journey to survey and explore the world's ocean, including the deep sea in the great ocean basins. During this time, her crew and scientific staff collected 492 depth soundings and 263 observations of water temperature—an impressive feat considering their equipment consisted of a plumb line marked in 25 fathom intervals and several thermometers (including a reversing thermometer, which could measure temperature at specific depths). The resulting 50-volume report laid the foundation for the modern fields of oceanography.

Fast forward more than 140 years and scientists today are exploring the ocean on scales, and with technologies, that few aboard the *Challenger* would be able to imagine. Take this recent example from the University of Washington School of Oceanography, where Charlie Eriksen and his colleagues deployed an autonomous underwater vehicle (AUV) called a Seaglider to conduct repeat surveys of Ocean Station P—a site 850 miles west of the British Columbia, Canada coast in the center of the Gulf of Alaska, visited a few times annually over more than half a century. Over the course of 292 days the Seaglider—outfitted with a CTD (a sensor that measures conductivity, temperature, and depth)—collected 3500 profiles of the water column as it traveled 5528km through the water. At the end of three Seaglider missions, Eriksen and his team had 18 months of temperature measurements in the top 1000m of the water column, with most of the work being conducted by a bright pink, 1.8m-long underwater robot weighing in at just 110 pounds.

Now the Deepglider is poised to be one of the next great innovations in decades of technological advancements in

the field of oceanography and ocean engineering. While the first generation of underwater gliders, such as Seaglider, are restricted to a depth of 1000m, Deepgliders promise to be able to explore the ocean at depths up to 6000m, with 10,000km of horizontal range (equivalent to $\frac{1}{4}$ the circumference of the globe) and mission spans of over one year. These instruments are designed specifically to make routine full-ocean depth hydrographic surveys, which can help scientists understand much about the physical oceanographic properties of the deep ocean. Already in testing, Deepgliders have shed light on a variety of oceanic processes, including the impact of seafloor features, such as ridges, on geostrophic currents.

Recently, Charlie Eriksen and his team visited BIOS to conduct an extensive field test of Deepglider in the deep waters off Bermuda. On Thursday, March 20, 2014 the University of Washington group deployed one with instructions to travel back and forth to Hydrostation S—BIOS's deep-water research mooring located 15 nautical miles southeast of Bermuda. The plan is for the glider to transit these waters, collecting and sending data along the way, until April 10th or 11th, when the R/V Atlantic Explorer will leave port and head to the Bermuda Atlantic Time-series Study (BATS) site. At this time, the glider will be sent new instructions (via satellite) to travel southeast toward the BATS site and begin conducting repeat surveys around the site in a butterfly (or bowtie) pattern. As it turns out, the two BIOS time-series sites are crucial components in the glider's field test, as researchers can compare measurements from the glider's sensor with measurements taken at the sites and during the BATS cruise.

Eriksen and his colleagues plan to bring a second deep glider to Bermuda in the coming months and deploy it in a similar manner, allowing them to test both gliders at once. In the meantime, Eriksen keeps a keen ear out for the “ping” of a new message on his cell phone—the signal from the glider that it has surfaced, sent data, and is still “happy.”

Source: [Bermuda Institute of Ocean Sciences](#)



BBDA

The Bermuda Business Development Agency is a public-private sector partnership that is focused on growing Bermuda's economy, supporting international business and creating jobs. It includes the former organizations of Business Bermuda and the Insurance Development Council. www.bermudabda.com

Bermuda Business

www.abic.bm
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www.bermuda-insurance.org
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www.bfis.bm
www.bsx.com
www.govsubportal.com

Bermuda Foundation for Insurance Studies

www.bfis.bm

Bermuda Tourism

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www.ba.com
www.gotoBermuda.co.uk

Government of Bermuda – London Office

6 Arlington Street
London
SW1A 1RE
Telephone: +44 (0)20 7518 9900
Facsimile: +44 (0)20 7518 9901
Email: londonoffice@gov.bm
Website: www.gov.bm

Bermuda Registry of Shipping

6 Arlington Street, London, SW1A 1RE
Telephone: +44 750 773 9389

Bermuda National Gallery

www.bermudanationalgallery.com

Bermuda National Trust

www.bnt.bm
UK Friends of the Trust
Michael Whittall at whitsec@aol.com

Bermuda Parliament

www.parliament.bm

Bermuda Sloop Foundation

For information on the Foundation's work and the 'Spirit of Bermuda'
www.bermudasloop.org

Masterworks Museum of Bermuda Art

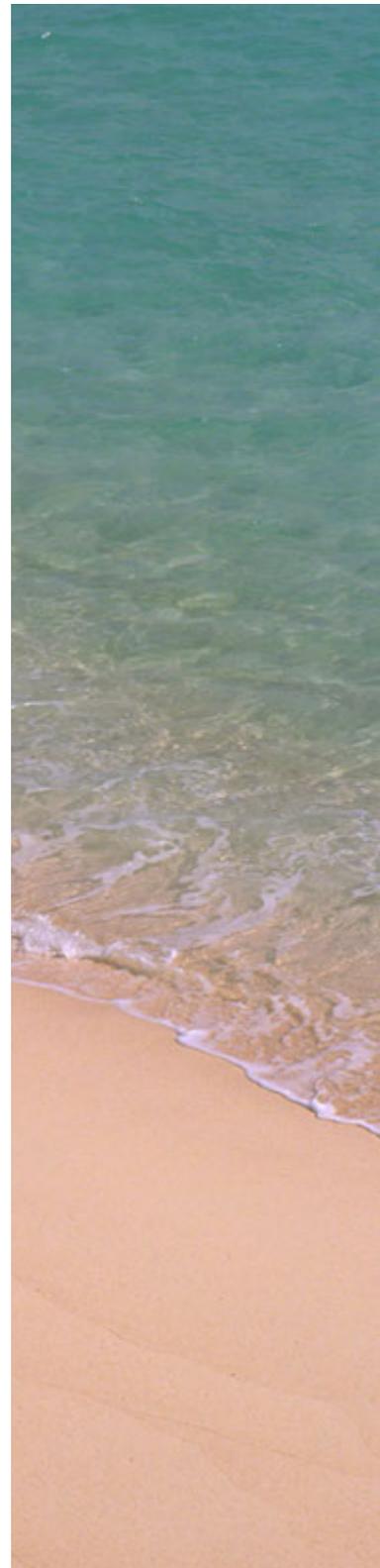
www.bermudamasterworks.com

National Museum of Bermuda

www.bmm.bm

Bermuda Local Media

www.bermudasun.bm
www.bernews.com
www.royalgazette.co





The Bermuda Society

The Bermuda Society was formed in 1987 with a view to forging close links between Bermuda and Britain in the areas of finance, commerce and economics. The Society has strong ties with both Houses of the British Parliament and the Commonwealth Parliamentary Association, with figures in the City of London, in tourism, air transportation, the professions, insurance, reinsurance and banking as well as other opinion formers who have Bermuda's interests and good name at heart.

The Society has become a focal point for those interested in Bermuda. Lunchtime and dinner meetings addressed by interesting guest speakers take place throughout the year.

For more information on the Society and details of application for membership, please contact:

Suzanne Stubbins
Secretary
The Bermuda Society & Secretariat
Five Trees
Wood Lane
Stanmore
HA7 4JZ
United Kingdom
Tel: +44 (0)20 8954 0652
Fax: +44 (0)20 8420 7319
E-mail: bermudasoc@aol.com
Website: www.thebermudasociety.com

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