

Taking the initiative

Matthew Charleson, Head of LPI Fund Administration Services at Kane LPI Solutions Limited, talks to Ross Webber, CEO of the Bermuda Business Development Agency (BDA) about fund initiatives in Bermuda.



FUND LEGISLATION

In late 2013, following consultation between the Bermuda Monetary Authority (BMA), the Bermuda Government and the BDA Asset Management Focus Group, Bermuda passed an amendment to its Investment Funds Act 2006. This legislative enhancement, facilitating faster and smoother launching of funds, was designed to encourage fund managers to consider Bermuda anew as a fund domicile. Indeed, the legislation helped position Bermuda as one of the most efficient and cost-effective locations in which to set up a fund.

MC: How successful has this amendment been in terms of new fund registrations under the new Exempt Funds classification?

RW: I would say it has been very successful. While we had attractive fund legislation to begin with, we did not have the mechanism to allow a manager to simply register and launch a fund to essentially 'accredited investors' – and now we do. Fund registrations have increased steadily since the legislation passed, and the BMA reports approximately 40% of all new fund incorporations in 2014 were the new Class A and Class B Exempt Funds. Aside from the actual increase in fund incorporations, the actual process – the lessons we learned and the cooperation we developed with stakeholders – made this a rewarding exercise. The turnaround time and spirit of collaboration it generated has been a very encouraging example of the way in which we're moving forward as a public-private partnership.

ATTRACTING INTEREST

Bermuda has put a significant amount of time and effort into attracting business back into the jurisdiction. Undertakings such as 'Team Bermuda' visits to asset managers and legal firms in New York, as well as the work of the Regulatory Compliance Association, supported by a host of Bermuda-endowing firms

including Kane LPI Solutions, launching its inaugural Bermuda Symposium in April 2015, are helping achieve considerable success on this front.

MC: How do you think the market has reacted in general to Bermuda's response to challenges faced in attracting business back to the Island?

RW: The way the funds marketplace is interacting with Bermuda now is decidedly different from the way it did even two years ago. The referrers of business to our domicile can clearly see there is a new energy, vibrancy, spirit of collaboration, and a greater resolve to get things done and deliver solutions the market needs. We're feeling that response from the people we visit; the way they receive us has been more positive than ever before. As an example, Jack Rigney (a leading New York hedge fund lawyer and partner at Seward & Kissel) recently praised Bermuda's modern fund environment, saying, "Bermuda may in fact be the best jurisdiction for offshore funds when you consider the cost benefits and the practical regulations."

MC: Where will the BDA focus its attention next in terms of driving new funds business to the jurisdiction – London?

RW: Geographically, yes – we're looking at London and Switzerland. From a product solution perspective, we are looking to leverage Bermuda's existing successful insurance-linked securities business to attract more of the fund work here, along with the insurance and risk-transfer portion of ILS. There's no reason why Bermuda can't be a one-stop-shop solution. We're also looking to make a few amendments to the Island's partnership legislation to attract more private equity work. We're not ignoring New York, either; we'll continue to focus our attention there, while exploring new regions.

We are also working with our ILS group to make sure Bermuda maintains its leadership position in this field and we will be taking this message further afield.

ALTERNATIVE CAPITAL

Kane LPI Solutions is able to work extensively with their insurance management and ILS manager teams at Kane Bermuda (as well as Kane Cayman and Kane Guernsey), and has achieved recent successes due to such collaboration. Events such as the recent ILS Convergence in Bermuda showcase this synergy and enhance the overall level of services provided – not only by Kane LPI Solutions, but by the Kane group as a whole, and indeed reflects on Bermuda's ability to transform itself to benefit from challenges in the market such as the proliferation of alternative capital inflows to the reinsurance sector.

MC: Having seen a significant influx of new funds and capital into the ILS space over recent years, how do you view its impact on reinsurance and the increasing importance generally of alternative capital?

RW: Bermuda's risk solutions market has repeatedly proven it adapts well to change. Seeing this influx of alternative capital, the growth of the ILS market, and the different tools now being used (hedge fund-backed reinsurers, cat bonds, sidecars, etc.) – as well as the consolidation among large reinsurance players – it seems more than likely the market's landscape in 2015 and beyond will rapidly transform. As we have demonstrated for decades, we're confident innovative adaptations will result.

TAKING DIRECTION

The long-awaited Solvency II Directive is due to come into force in January 2016. Bermuda was one of the first jurisdictions to seek equivalence under the Directive implementing a bifurcated approach, a measure taken to maintain its leading position within the global insurance market.

RW: What does Kane LPI think of the direction Bermuda is taking in regard to Solvency II – do you feel it's beneficial for the jurisdiction?

MC: The BMA is certainly taking the right steps in this direction by looking to converge on Solvency II, which will cement Bermuda's reputation as a responsive and responsible jurisdiction.

As one of the first jurisdictions to actively seek equivalence under Solvency II, Bermuda has decided to take a bifurcated approach whereby captives will not be deemed equivalent. Insurance companies however will be, enabling the insurance industry to continue operating within the EU and to maintain levels of competitiveness in most other markets.

Now the question is, has the BMA done enough as a regulator to start the changes necessary to enhance the regulatory framework

in order to bring the Bermuda insurance industry in line with Solvency II? The BMA is being sympathetic to industry wishes in moving to become more of a risk-based regulator enabling insurance companies to calculate their capital requirements based on their own risk profiles. The basic concept is that if insurance companies were to calculate and manage their capital on a risk sensitive basis, then policyholders would be better protected.

From a reporting perspective the third pillar of Solvency II does put an increased burden on reporting as at the core of the requirement is a look-through to the underlying asset base. As most insurers outsource their asset valuations, pricing and reporting to investment managers or third party administrators, that burden will ultimately fall on those third parties. Bermuda is home to many such investment managers and fund administrators, who will be responsible for gathering and maintaining the asset data for insurers.

RW: How does Kane feel about the direction the BDA – and therefore, Bermuda – is taking from a business development perspective?

MC: The BDA has greatly helped to enhance the focus of the Bermuda Government's support on international business growth by consolidating the representation, development and coordination of Bermuda's interests across the range of business sectors. We believe that by achieving a greater sense of consolidation, this has resulted in better utilization of the available resources, and has created a more robust approach to supporting the aims and aspirations of the international business sector creating both synergies and new opportunities.

Moving forward, we are looking to build further on the strong relationship we have established with the BDA. We will continue to play our part in helping to promote and enhance Bermuda's standing on the international stage.

KANE LPI SOLUTIONS

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Matthew Charleson

Head of LPI Fund Administration Services,
Kane LPI

T: +1 441 248 6835

E: matthew.charleson@kane-group.com



Ross Webber

CEO of the Bermuda Business
Development Agency (BDA)

M: +1 441 292 0632

E: ross@bda.bm

