

Continuing Bermuda's Economic Miracle



November 3, 2009

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Forward

Fellow Bermudians,

We are at a crossroads. From our beginnings 400 years ago, we have built the fastest ships, dominated the world's salt trade, served as a vital base in times of war, become the destination of choice for discerning tourists, and pioneered modern insurance and reinsurance markets. We have a wildly successful economy, with income per capita twice that in the United Kingdom. We have a beautiful homeland, with sparkling beaches, breathtaking blue waters, and invigorating ocean air. And we have each other, with our culture of hospitality and good will.

We cannot take all this for granted. In the past decades, we have relied on growth in the insurance and reinsurance sector to drive our economy, but we cannot take continued growth in these sectors for granted. We are not enjoying the success in tourism that we once did. We now face greater competition from year-round getaways, and we have far less overnight capacity than we used to. Meanwhile, we continue to face difficulty creating attractive opportunities for all Bermudians, with naggingly persistent school drop-out rates and far too few Bermudians who are qualified for middle-class jobs. The most recent global financial crisis and economic downturn have accentuated many of these challenges, showing cracks in Bermuda's economic and social foundations.

In the face of these challenges, we joined other dedicated Bermudians and Bermuda residents to form Bermuda First, a public-private partnership dedicated to ensuring continued prosperity for all Bermudians. This report contains our initial findings about the opportunities and challenges that Bermuda faces. We hope it serves as the beginning of a dialogue amongst all of us, about how we will come together to build a brighter future, and to put Bermuda First.

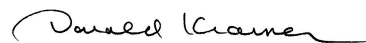
Sincerely,



The Honourable Dr. Ewart
F. Brown JP MP
Premier



Kim Swan JP MP
Opposition Leader



Don Kramer
Chairman and CEO,
ArielRe

Executive Summary

Bermuda is one of the wealthiest and most prosperous places on earth. Income per capita is \$86,000 per year, higher than that in all but three countries. The rise of international business and more-sophisticated financial markets, particularly in insurance and reinsurance, have driven most of Bermuda's recent economic success. These sectors account directly for 48% of Bermuda's economy and another 20% of the economy through their demand for goods and services from other sectors. Bermuda's tourism sector represents another 5% of economic output.

In late 2008, at the height of the global financial crisis and economic downturn, many of Bermuda's leaders had growing concerns that Bermuda's long-term prosperity was at risk. Growth in international business and tourism had slowed. Furthermore, there were tax and regulatory changes looming on the international scene, and these changes could have compromised Bermuda's position as a domicile of choice for international business.

In this context, in February 2009 several of Bermuda's leaders came together to form Bermuda First, a public-private partnership whose purpose is to better understand Bermuda's overall economic position and to lay out ideas to ensure the continued prosperity of all Bermudians for the years to come. This report is the first major outgrowth of that effort.

Early on, Bermuda First launched a survey of 66 leaders in Bermuda's commercial, public, and non-profit sectors. This survey identified important strengths of Bermuda, including its legal and regulatory environment and high-quality professional services. The survey also identified some areas perceived to need improvement, such economic diversity, the availability of skilled workers, the educational system, and public safety. A strong majority of survey respondents indicated that "substantial reform" would be required to maintain Bermuda's prosperity over the coming five years.

The Bermuda First team augmented this survey with individual interviews, focus groups, and independent research. This built a strong fact base about the opportunities and challenges faced by Bermuda. In light of this assessment, the Steering Committee came together to align on a vision for Bermuda in 2015. In that proposed vision, Bermuda will strive to be a premier international financial centre, reinvigorate its tourism sector, diversify its economy, and improve economic opportunities and benefits for all Bermudians.

To ensure the continued vitality of Bermuda's **international business** sector, Bermuda should: (1) better anticipate and influence policy changes of foreign governments and

regulators, (2) provide additional resources to the Ministry of Finance and the Bermuda Monetary Authority to support their efforts to improve Bermuda's standing in the international community, (3) better coordinate efforts to promote Bermuda to businesses that might locate in Bermuda, (4) consider extending the corporate tax exemption beyond 2016, (5) consider the establishment of an international arbitration centre, and (6) continue to educate Bermudians about the benefits of international business to Bermuda.

To reinvigorate Bermuda's **tourism** sector, Bermuda should: (7) study how to improve the tourist value proposition, (8) decrease taxes on the sale of fractional units, (9) consider the results of the study on the impact of gaming, (10) study whether to create a tourism authority, (11) increase subsidies for accommodation in non-peak seasons, (12) invest in recreational activities in Hamilton, (13) continue modest vouchers or airfare subsidies for overnight leisure visitors, and (14) educate Bermudians about career opportunities in the hospitality industry.

To grow and **diversify the economy**, Bermuda should: (15) expand into new lines of insurance and reinsurance, (16) create a risk-management institute, (17) deepen Bermuda's primary market in insurance-linked securities, (18) attract fund managers and administrators, (19) become a global centre for intellectual property, (20) provide privileged residency for wealthy individuals who create jobs in Bermuda, and (21) increase ocean exploration and sustainable exploitation.

To improve the **socioeconomic foundations** for Bermuda's long-run prosperity, Bermuda should: (22) complete the adoption of an internationally-recognized curriculum in the public school system, (23) streamline scholarship management, (24) strengthen training in vocational schools, (25) waive term limits and work permits for occupations that historically have permits approved 100% of the time, (26) intensify efforts to reduce crime, (27) continue to encourage development of affordable housing, (28) study the drivers of the cost of living and cost of doing business in Bermuda, (29) make Bermuda a leader in green technology, (30) attract additional high-calibre Bermudians to serve in government, (31) continue investing to make government more efficient, and (32) further improve the transparency of government processes.

Taken together, these recommendations will put Bermuda on a fundamentally better path, create new and rewarding jobs for all Bermudians, and greatly increase the chances that Bermuda will continue to prosper for generations to come.

Executing all these recommendations will require substantial investments by all Bermudians. The Bermuda First organization will continue and enhance its capabilities in order to provide a forum for further analysis, discussion, and leadership, and to ensure continued progress on these recommendations in the months and years ahead.

The Bermuda First organization will provide a forum for further analysis, discussion, and leadership, and to ensure continued progress toward this vision in the months and years ahead.

1. Introduction

Bermuda has enjoyed tremendous prosperity in the past 50 years. Economic output per capita is \$86,000 year¹, higher than that of 99.9% of the world's population, and this wealth improves the quality of life of all Bermudians. The improvement in Bermuda's economic condition has been driven by its continued attractiveness as a tourist destination and by the emergence, over the past decades, of Bermuda's international business sector, which leads the world in important parts of the insurance and reinsurance markets.

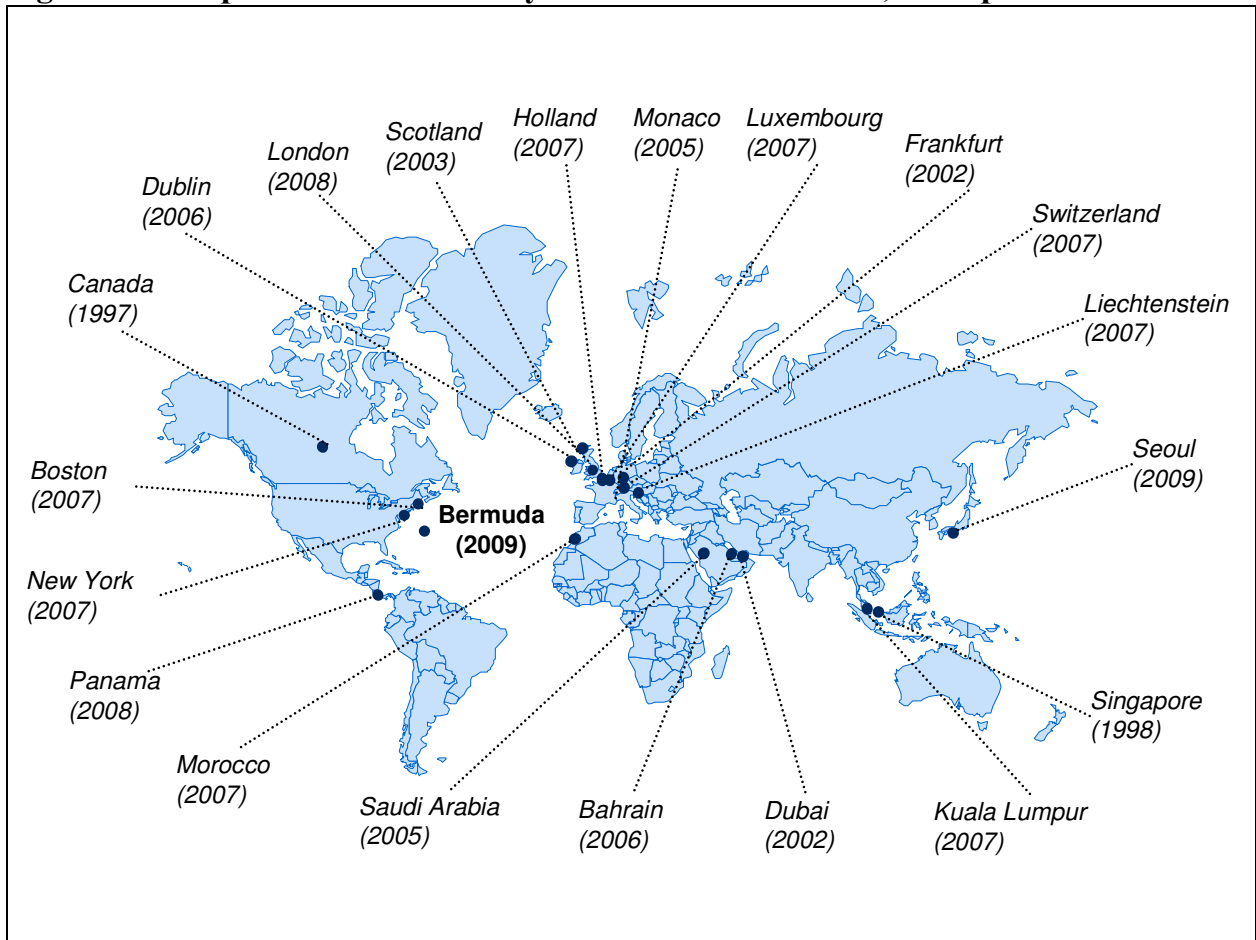
Various factors are putting Bermuda's continued prosperity at risk. For example, there is intense competition from other financial centres and tourist destinations, the world is experiencing a financial crisis and recession of unusual depth and breadth, foreign powers are considering unprecedented tax and regulatory reforms, and businesses throughout the world are rethinking their strategies, including where and how to conduct business. These factors collectively put in question whether Bermuda will be able to continue its impressive record of economic growth.

As a concrete example of the pressures Bermuda faces, in the last 12 years, at least 20 financial centres around the world have launched formal efforts to bolster their growth and prominence on the world stage. See Figure 1.

In this context, several of Bermuda's leaders came together in February 2009 to form "Bermuda First," a non-profit organization whose purpose is to better understand Bermuda's overall economic position and to lay out ideas to ensure continued prosperity of Bermuda and all her people for the years to come.

Bermuda First is a non-partisan, public-private partnership, funded jointly by the Bermudian government and Bermuda's leading businesses. In its initial phase, it operated under the direction of a Steering Committee of 16 members, in turn headed by three Co-Chairs: (a) The Honourable Dr. Ewart F. Brown, JP, MP, Premier; (b) Kim Swan, JP, MP Opposition Leader; and (c) Mr. Don Kramer, Chairman and Chief Executive Officer of ArielRe. Since the initial phase of Bermuda First, it has added two additional co-chairs, (d) Mr. Gil Tucker, Partner, Ernst & Young and (e) Mr. Peter Durhager, Senior Vice President, Renaissance Re. Gregory W. Slayton, then U.S. Consul General, played a galvanizing leadership role in the creation of Bermuda First and served as an ex officio member of the Steering Committee. Bermuda First has also had an Advisory Committee composed of 69 leaders from throughout Bermuda. The Appendix contains the full list of members of Bermuda First's Steering Committee and Advisory Committee during its first phase, which culminated in this report.²

Figure 1: Competitiveness efforts by other financial centres, 2007-present



The Steering Committee decided to retain a consulting firm to (a) provide a thorough and independent analysis of Bermuda’s current economic position and future prospects and (b) help the Steering Committee to align on recommendations to improve Bermuda’s outlook. After an open bidding process, the Steering Committee selected McKinsey & Company for this initial study, which lasted ten weeks.

During that initial ten-week phase, the Steering Committee sought input from throughout Bermuda’s society and economy, via the following:

- ¶ **Interviews and focus groups.** The team met with 170 leaders from Bermuda’s commercial, public, and non-profit sectors, in individual meetings and focus groups
- ¶ **A comprehensive survey.** Sixty-six leaders from Bermuda’s commercial, public, and non-profit sectors completed a written survey about Bermuda’s situation and prospects
- ¶ **New facts and analyses.** The Steering Committee received new facts and analyses from (i) Government ministries, such as the Ministry of Finance, the

Department of Tourism, the Department of Statistics, and the Bermuda Monetary Authority (BMA); (ii) trade associations, such as ABIC, ABIR, and BIBA; and (iii) its external consultants

- ¶ **Working sessions.** The full Advisory Committee met three times. Members of the Advisory Committee also came together in smaller groups for seven working sessions on a range of topics.

The remainder of this document lays out the initial findings of the Bermuda First effort. Chapter 2 reviews the historical evolution and future prospects of Bermuda's economy. Chapter 3 lays out a potential long-run vision for what Bermuda should be trying to achieve. Chapters 4 and 5 assess Bermuda's international business sector and tourism sectors, respectively, calling out recommendations for ensuring their continued vitality and growth. Chapter 6 explores options for diversifying Bermuda's economy. Chapter 7 assesses the demographic, sociological, and economic foundations for Bermuda's continued prosperity, with recommendations for solidifying those foundations. Chapter 8 concludes, with a discussion about what is next for Bermuda and Bermuda First.

2. Bermuda's Overall Situation

In recent years, Bermuda's economy has achieved one of the highest levels of prosperity and growth in the world, but this economic miracle is at risk, due to a combination of internal challenges and external threats, primarily but not exclusively the result of the combined global financial crisis and economic slowdown. This chapter briefly reviews Bermuda's past economic success, lays out the results of a self-assessment survey of several dozen of Bermuda's leaders, and discusses the implications of the global financial crisis and economic slowdown.

A. HISTORICAL GROWTH OF BERMUDA

Bermuda is a small island, with just 21 square miles, and has a small population, of just over 65,000 inhabitants³. Nonetheless, Bermuda has achieved significant economic growth over the past 15 years. It has enjoyed one of the highest levels of prosperity in the world, with an admirable gross domestic product (GDP) per capita of \$86,000 in 2007. Only three countries have higher income per capita: Luxembourg, Norway, and Qatar⁴.

International business is primarily driven by the insurance and reinsurance sector: Bermuda is the second largest domicile of captive insurers after the United States⁵, and the third largest domicile for reinsurers after United Kingdom and the United States⁶.

International business activity accounts for 26% of Bermuda's GDP, with financial intermediation and related business services accounting for another 22% of GDP. Demand for goods and services in the international business sector also accounts for roughly 20% of all of the output of other sectors of the domestic economy. Putting all this together, international business and the financial sector account for more than two thirds of Bermuda's economic output. See Figure 2.

From 1997 to 2007, Bermuda's GDP grew at 7.7% per year, much higher than that in most of the developed world. Over this interval, international business activity and financial intermediation grew at an impressive rate of 14.8% and 9.9% per year, respectively. These two sectors pulled up the rest of the economy, more than compensating for the much slower growth in the tourism sector, which used to be an even more important part of Bermuda's economy.

Figure 2: Economic activity in Bermuda, by sector

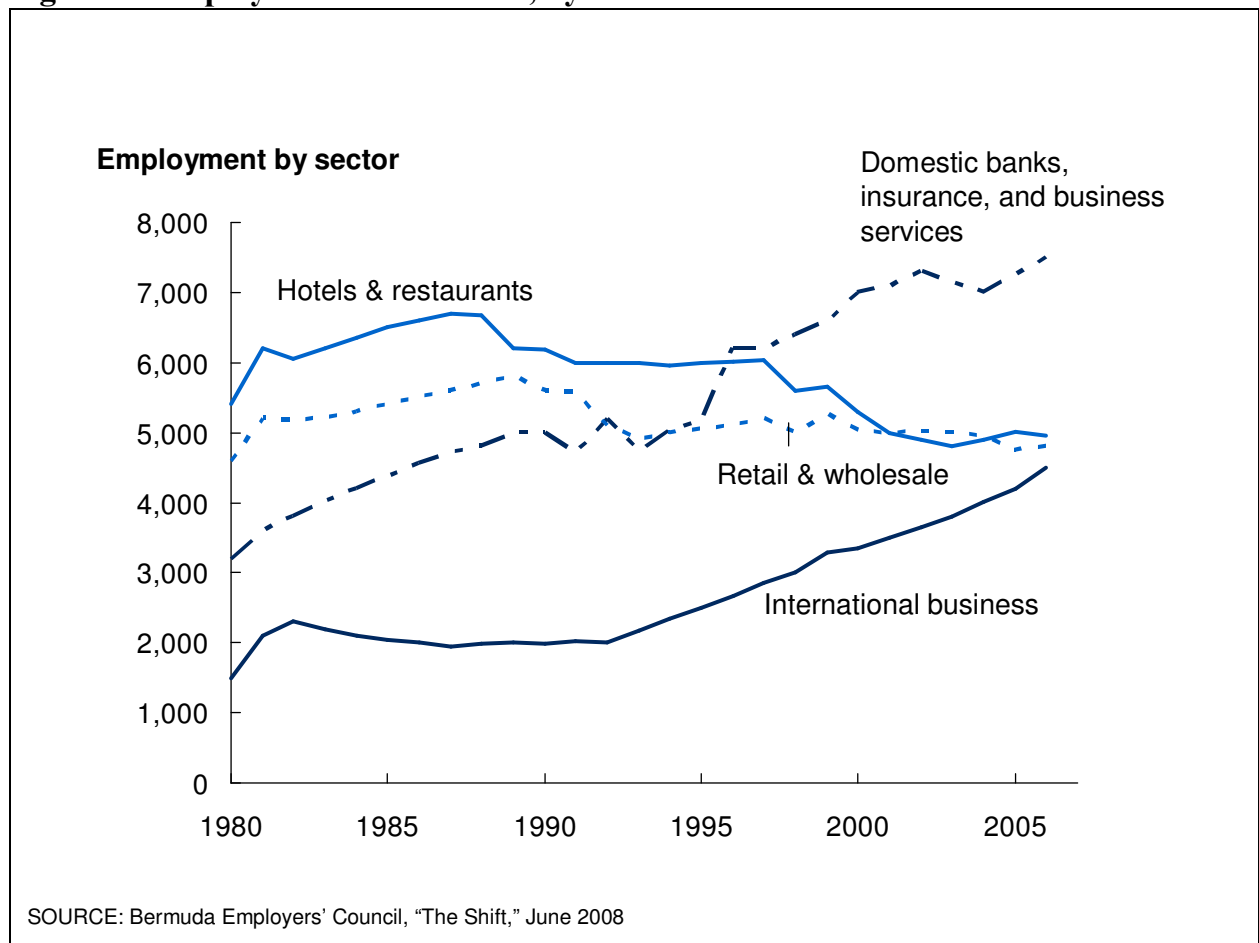
Sales	GDP in sector \$ Millions		GDP in sector Percent of total		Percent GDP growth rate in sector
	1997	2007	1997	2007	
International business activity	400	1,590	14	26	14.8
Financial intermediation	320	820	11	13	9.9
Business services ¹	240	550	8	9	8.5
Social and public services sector	430	750	15	12	5.8
Real estate	480	820	16	13	5.5
Hotels and restaurants	220	320	7	5	3.8
Other domestic private sector ²	830	1,290	28	21	4.5
Total	2,920	6,150			7.7

1 Business services include accounting, legal, and consulting services and computer/IT
2 Other domestic private sector includes government, recreational activities, social work, health care and personal services

SOURCE: Bermuda National Economic Report 2008

International business, domestic banks, insurance, and business services account for a large and growing share of Bermuda’s employment. These sectors directly employ over 12,000 people in Bermuda today. See Figure 3. While tourism still remains one of Bermuda’s major employers, creating 4,644 jobs, the number of employees has declined steadily since the sector’s peak in 1987. Without the growth in employment in international business and the related sectors, the overall employment situation in Bermuda would have been much worse in recent years.

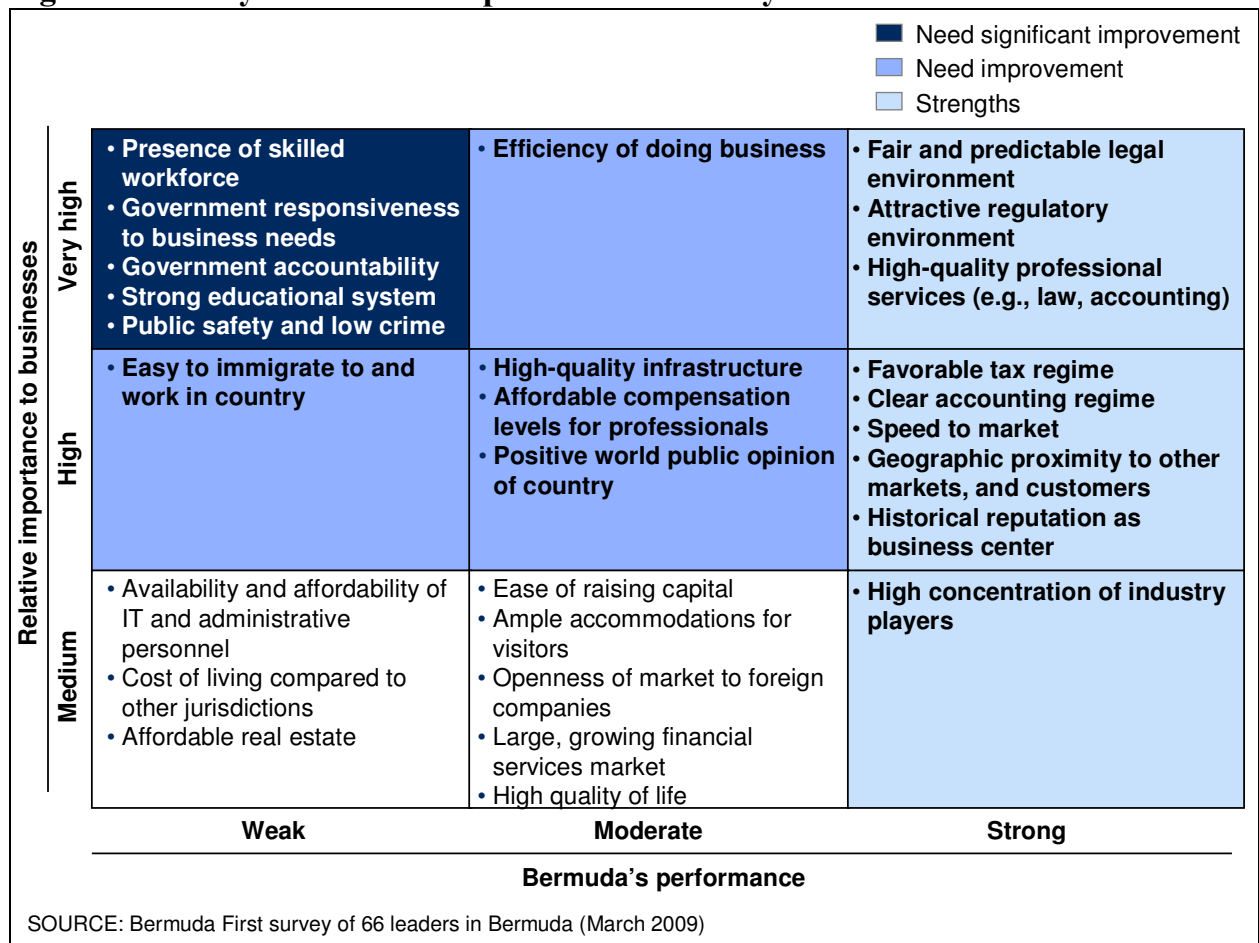
Figure 3: Employment in Bermuda, by sector



B. SELF ASSESSMENT OF BERMUDA’S LEADERS

The March 2009 Bermuda First survey of business, government, and non-profit leaders validates these results. See Figure 4. The right side of the figure shows the categories on which respondents felt that Bermuda was performing the best. The top shows those categories that respondents felt were the most important for promoting business and the economy. Putting this together, Bermuda’s leaders thought that Bermuda was performing very well on the crucial dimensions of the legal and regulatory environment and underlying base of professional-services support. Bermuda also benefits from its low-tax regime, clear accounting rules, speed to market, geography, and reputation.

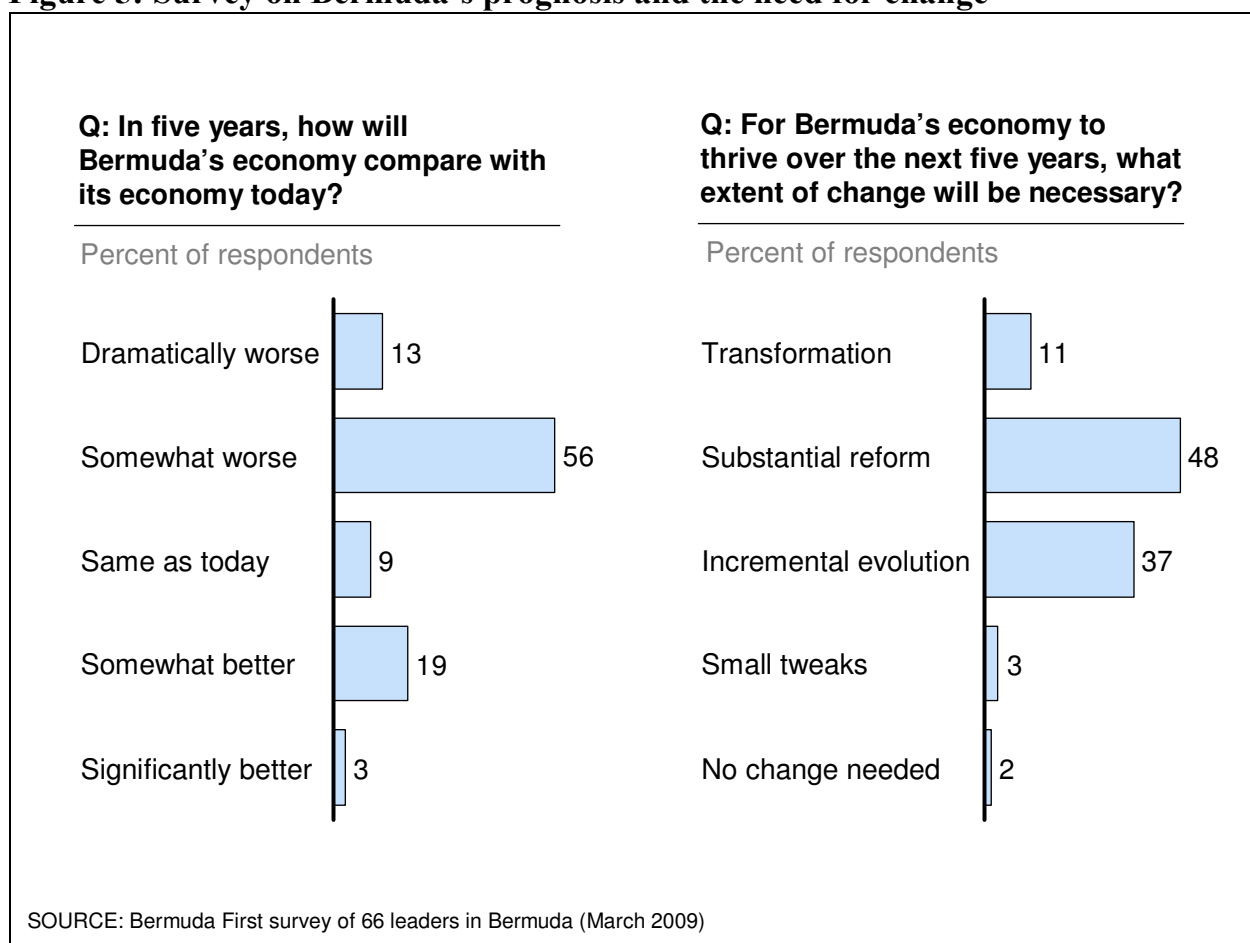
Figure 4: Survey on Bermuda’s performance on key success factors



The survey also highlights areas that respondents felt needed additional attention. From the upper left, they felt that Bermuda needed to do more to: improve its workforce, government’s responsiveness and accountability, education, and public safety. Subsequent chapters in this report discuss recommendations to improve Bermuda’s performance on these dimensions.

The Bermuda First survey also asked leaders about the prognosis for Bermuda’s economy. See Figure 5. More than two-thirds of the respondents thought that Bermuda’s economy would be dramatically worse or somewhat worse in five years. Furthermore, more than 60% of the survey respondents said that either “transformation” or “substantial reform” would be required for Bermuda’s economy to continue to thrive. Only 5% thought that only “small tweaks” or “no change” was necessary.

Figure 5: Survey on Bermuda’s prognosis and the need for change



C. IMPLICATIONS OF THE GLOBAL ECONOMIC CRISIS

Some of the concerns expressed in the Bermuda First survey were invariably linked to the financial crisis and global economic downturn. Given the unprecedented interconnectedness of the global financial and trading systems today, and Bermuda’s heavy dependence and continued reliance on international business and imports, it was only a matter of time before the financial tidal wave that started in the United States and rapidly engulfed the world also hit Bermuda. In October 2009, Deputy Premier and Finance Minister the Honourable Paula Cox said that she estimated that Bermuda’s GDP could fall by 1.0-1.5% during 2009⁷.

The global financial crisis and economic slowdown have only modestly affected Bermuda’s insurers and reinsurers, and primarily only through their investment results, which historically represent only a small fraction of their overall profitability. The more serious implications of the global financial crisis are likely to take the form of changes to international rules on taxes and regulation. For example, there is continuing pressure,

from the U.S. and elsewhere, to single out jurisdictions like Bermuda that have low corporate and personal income taxes, even when those jurisdictions freely exchange tax information under international agreements. Chapter 3 discusses these challenges in more detail.

The global economic slowdown has had a more substantial effect on Bermuda's tourism industry, where revenues declined by 21% between 2007 and 2008⁸. Chapter 5 discusses these challenges in more detail.

On a positive note, the double-hit of the global financial crisis and ensuing economic slowdown was the catalytic event that led to a sense of urgency on the part of Bermuda's leaders and the creation of Bermuda First. While financial crises and economic recessions have a devastating effect on individuals, businesses, and societies, crises also present unique opportunities for both financial centres and companies to rethink their strategies and restructure the ways they attract and develop more business activity to drive sustained economic and corporate growth. This crisis offers Bermuda that opportunity.

3. Aligning on a Vision for Bermuda

Good strategies often start from a clear sense of direction. As such, many financial centres have laid out compelling visions of what they seek to accomplish. For example, London’s vision is to be the world’s leading financial centre, while Switzerland seeks to be among the top three, and Singapore aspires to be Asia’s leading financial centre, operating at world-class standards. In a similar way, Bermuda First crafted its own recommendation for Bermuda’s vision. See Figure 6.

Figure 6: A vision for Bermuda

To continue Bermuda’s economic prosperity and ensure its long-term sustainability, we will:

1. Be a premier international financial centre
2. Reinvigorate tourism as the second pillar of the economy
3. Pursue new areas to diversify the economy
4. Improve economic opportunities and benefits for all Bermudians

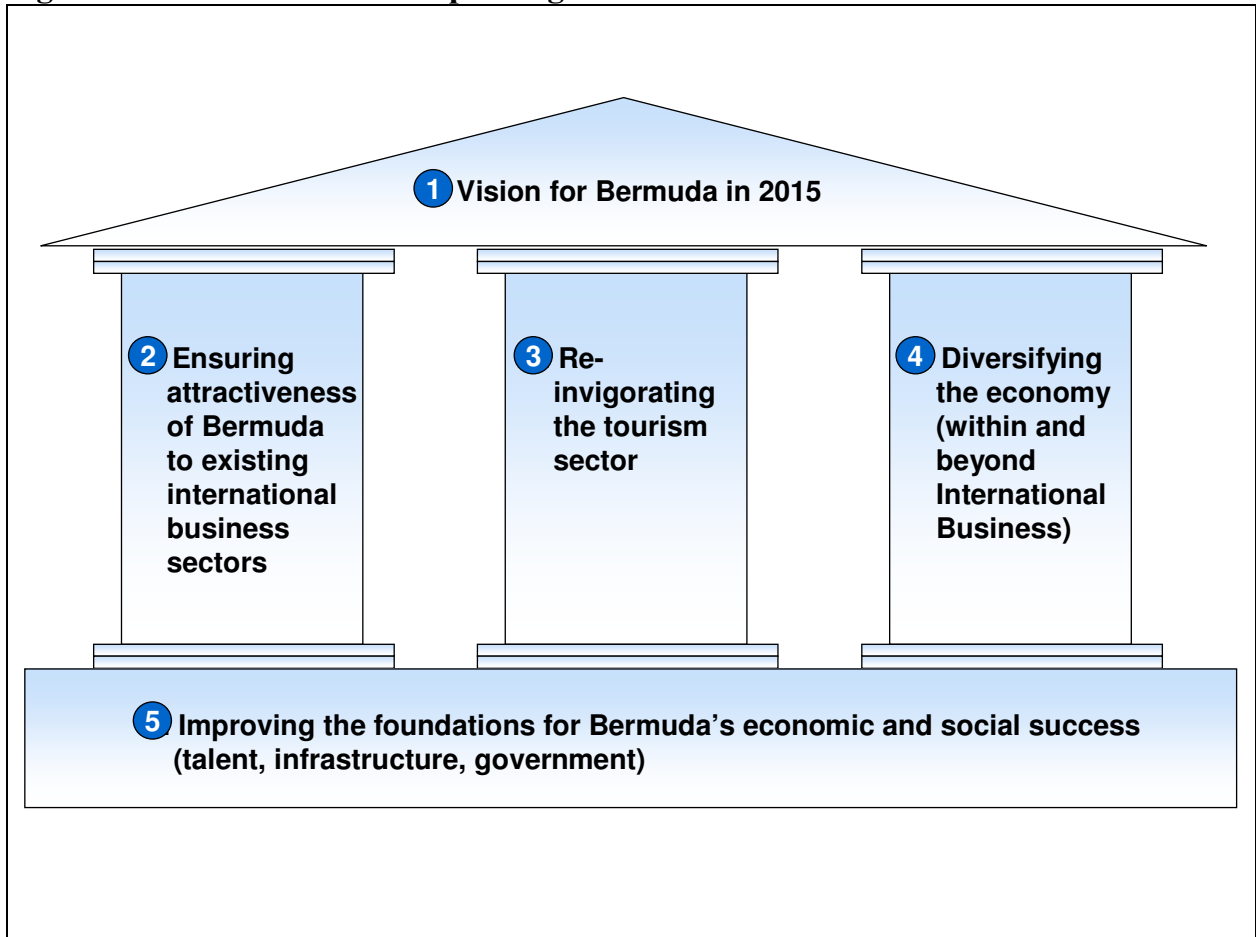
Bermuda First recommends the following milestones as a starting point for measuring progress against this vision:

- ¶ Rank among the top-20 financial centres within five years, as measured by the Z/Yen Global Financial Centres Index, versus 27th in 2009
- ¶ Increase the number of air visitors to 400,000, a roughly 30% increase versus 2007
- ¶ Develop two new sub-sectors that each represents roughly 1% of Bermuda’s GDP in the future. Note that tourism is roughly 5% of Bermuda’s GDP
- ¶ Reduce the relative poverty rate for all constituencies in Bermuda⁹
- ¶ Improve the high-school graduation rate in Bermuda.¹⁰

In order to organize the issues and challenges that Bermuda must overcome to achieve this vision and create a better future for all Bermudians, Bermuda First created the framework depicted in Figure 7. All the strategies stem from Bermuda’s vision at the top of the figure. The strategies are then organized around the “three pillars:” the

international business sectors, tourism, and new activities that will diversify the economy. Underlying all of this are Bermuda’s socioeconomic foundations: talent, infrastructure, and government. The remainder of this report discuss these three pillars and foundations in greater detail.

Figure 7: A framework for improving Bermuda



4. Bermuda's International Business Sector

Bermuda is an attractive home for international business. For example, it is the world's second largest reinsurance centre, behind only London. In 2006, 12 of the top-40 global reinsurers were based in Bermuda¹¹. This success has made international business the lynchpin of Bermuda's thriving economy, where fully 68% of Bermuda's GDP stems from international business and financial intermediation. This core strength of Bermuda's economy is coming under threat today from external pressures on taxes and regulation.

A. BACKGROUND

Bermuda's modern international business markets began after World War II, with the creation of AIG and the rapid growth of its insurance and reinsurance markets. For example, between 1981 and 2005, Bermuda's insurance and reinsurance industry grew at a very healthy 12.7% per year¹², leading the industry to be 18 times larger in 2005 than in 1981. Formations of new insurers in Bermuda peaked at 109 per year in 2001 and steadily declined to 75 per year by 2005, due to market conditions and competition from other jurisdictions¹³.

Today, insurance and reinsurance are major drivers of the Bermudian economy, with 1,312 active insurers and reinsurers. Bermuda's insurance market is diversified and sophisticated, with 1,135 general insurers, 100 composite insurers, 77 long-term insurers, and 19 domestic insurers¹⁴.

Alongside this thriving insurance and reinsurance market, Bermuda has developed a healthy banking sector and very strong support services, especially in law and accounting. All this financial-sector activity has become self-reinforcing, where growth has led to increased scale, which has decreased costs and led to further growth in international business.

As a financial centre, Bermuda's strength stems from its ability to attract and retain companies and invested capital, in competition with other jurisdictions, like Switzerland or Cayman. Based on interviews in Bermuda and around the world, companies and investors care about: the tax, regulatory, and legal regimes; talent; infrastructure; and effective government. Bermuda does well on all these dimensions, especially tax, regulation, and law. These strengths allowed Bermuda to be the destination of choice for new capital formation after the September 11, 2001 attacks in New York and Hurricane

Katrina in 2005. That said, Bermuda’s strengths do not vault it into pre-eminence as a financial centre. For example, Bermuda ranks as only the 27th most-important financial centre in the world, behind Dubai, Cayman, and Vancouver, among others¹⁵.

Activity in international business and finance leads to higher economic output and jobs for Bermudians. As shown in Figure 2 above, international business accounts directly for 26% of Bermuda’s GDP, and financial intermediation accounts for another 22%. Businesses in these sectors also lead to higher output in other sectors. For example, Bermuda’s reinsurers very often hire Bermudian accountants and lawyers. This direct spending leads to another 9% of Bermuda’s economy. See Figure 8. In turn, direct spending in these support sectors leads to additional indirect economic activity in Bermuda. For example, the lawyer might spend money in a restaurant. This indirect activity accounts for another 11% of Bermuda’s economic activity. Putting all this together, international business and financial intermediation are responsible for 68% of Bermuda’s economic activity.

Figure 8: Economic output created in Bermuda by international business

\$ Millions, 2007			
Sector ¹	Direct spending	Indirect spending	Total spending
Manufacturing and construction	32	452	484
Legal, accounting and business services	200	94	294
Financial intermediation	256	26	282
Transport and communications	123	147	271
Real estate and renting	109	129	239
Hotels and restaurants ¹	42	57	99
Utilities	15	62	77
Wholesale and retail	0	4	4
Other sectors ³	116	225	342
Total	894	1,197	2,091

International business accounts for 20% of all the output of other sectors

1 Spending on each sector calculated through direct surveys of international business employment and spending (e.g., money spent by international business on lawyers) and estimating the indirect effect of this on employment and spending (e.g., these additional lawyers spend money in restaurants)
2 Spending on hotels and restaurants due to international business visitors was estimated by multiplying the amount of business tourism expenditures by the percentage of all exports comprised by international business
3 Other domestic private sector includes government, recreational activities, social work, health care, and personal services
SOURCE: 2007 Ministry of Finance financial model (Detailed 19-sector Use Table for Bermuda); Department of Tourism data; team analysis

International business leads to good jobs for Bermudians as well. As shown in Figure 9, international business directly creates 4,688 jobs in Bermuda, of which 59% are filled by

Bermudians. The indirect effects are even larger. Taking into account all of the positive knock-on effects, international business is responsible for 28% of all jobs held by Bermudians.

Figure 9: Jobs created in Bermuda by the international business sector

Sector	Jobs in sector Number of employees		Jobs in sector due to international business ¹ Number of employees		Percent of jobs in sector due to international business
	Total	Bermudian	Total	Bermudian	
International business	4,688	2,766	4,688	2,766	100
Legal, accounting and business services	2,166	1,433	1,352	895	62
Financial intermediation	2,472	2,208	926	765	37
Utilities	374	346	117	108	31
Transport and communications	2,290	2,181	628	598	27
Real estate and renting	635	574	123	111	19
Manufacturing and construction	4,405	3,215	643	468	15
Hotels and restaurants ²	4,644	2,768	369	224	8
Wholesale and retail	4,732	4,211	369	329	8
Other sectors ³	10,965	8,492	1,431	1,043	13
Total	37,371	28,193	10,512	7,229	28

1 Calculated through direct surveys of international business employment and spending (e.g., money spent by international business on lawyers) and estimating the indirect effect of this on employment and spending (e.g., these additional lawyers spend money in restaurants)

2 Spending on hotels and restaurants due to international business visitors was estimated by multiplying the amount of business tourism expenditures by the percentage of all exports comprised by international business

3 Other domestic private sector includes government, recreational activities, social work, health care, and personal services

SOURCE: 2007 Ministry of Finance financial model (Detailed 19-sector Use Table for Bermuda); Ministry of Finance and Department of Tourism data; team analysis

B. FUTURE PROSPECTS AND CHALLENGES

While international business continues to be the primary engine of Bermuda's economy, there are significant challenges on the horizon, threatening this important sector. In particular, the global financial crisis, resultant stresses on tax revenues in other countries, regulatory reform around the world, and increasing competition from other jurisdictions are all coming together to put pressure on Bermuda's tax and regulatory advantages. Businesses have come to Bermuda because its government does not tax corporate profits and has an efficient regulatory apparatus that makes it easier to do business. Erosion of these advantages would limit Bermuda's economic prospects.

Tax challenges

On the tax front, the external challenges come from the U.S., U.K, Organization for Economic Cooperation and Development (OECD), and the Group of Twenty (G20). The situation in the U.S. is highly dynamic, but there are four proposals that would fundamentally damage Bermuda's value proposition for international business. These include a plan outlined by President Obama and the Levin, Neal, and Baucus bills now before the U.S. Congress.

President Obama proposes to increase U.S. tax revenue by precluding U.S. companies from "deferring" payment of U.S. taxes on the profits they make from overseas investments¹⁶. This would decrease the attractiveness of U.S. companies having operations in Bermuda. The Obama administration's proposals would also require increased financial reporting by U.S. citizens of transactions in offshore jurisdictions, with presumptive standards, penalties for non-compliance, and other enforcement provisions. This would likely slightly decrease the amount of private investment activity that takes place in Bermuda. Large U.S. multinational corporations and other powerful stakeholders are lined up against these proposals, but on the other hand President Obama is under strong pressure to reduce the burgeoning U.S. budget deficit. As such, the outcome is uncertain.

In the U.S. Congress, the Baucus bill would increase reporting requirements¹⁷. For example, U.S. taxpayers would have to disclose contents of foreign accounts larger than \$10,000. The bill would also double certain penalties in the tax code for failure to report foreign income. These proposals would be less painful to Bermuda than some of the other proposals under discussion, because the Baucus proposals focus on transparency, which is not at odds with the business model of the vast majority of Bermuda's international business activity, since Bermuda focuses on insurance and reinsurance, rather than, say, private banking for wealthy individuals. Senator Max Baucus, the sponsor of the bill, is the chairman of the U.S. Senate Finance Committee, so the bill has a relatively high likelihood of passage.

The Levin bill would name Bermuda as an "offshore secrecy jurisdiction" and would put in place tests of management and control that could trigger U.S. taxation¹⁸. It would also restrict use of passive foreign investment corporations (PFICs) and dividend equivalents and would create presumptive standards unfavourable to offshore business. These provisions would make it less attractive for U.S. companies to conduct business in Bermuda and with Bermudian companies. Thankfully, this bill is unlikely to pass because of only tepid support by members of Congress, particularly because the bill is opposed by Senator Baucus, who chairs the committee that would have to approve the bill.

The Neal bill would limit deductions for reinsurance premiums ceded to related parties not subject to U.S. taxation¹⁹. This would negatively affect some of the larger Class 4

insurers in Bermuda and would decrease affiliate reinsurance in Bermuda by about 87% or \$24 billion²⁰. The Neal bill is unlikely to pass in its current form, because there is substantial opposition from U.S. insurers, and the Obama administration has withheld support.

Moving beyond the U.S., Bermuda could face tax pressure from the U.K. The Foot Commission has reviewed the economic benefits and costs to the U.K. of its Dependencies and Overseas Territories, including Bermuda, and has come out with a report recommending tax increases in these jurisdictions.

Even more broadly, Bermuda faces tax pressure from the OECD and G20. So far, this pressure has focused on tax transparency, through increased disclosure, withholding taxes, and revision of tax treaties. Earlier this year, the OECD placed Bermuda on the “gray list” of countries that had not achieved international standards of tax transparency²¹. This subjected Bermuda to the risk of additional international scrutiny and pressure from foreign governments attacking Bermuda’s perceived tax advantages. Recently, Minister Paula Cox and her team at the Ministry of Finance successfully completed 18 tax information exchange agreements (TIEAs) with foreign governments,²² thereby getting Bermuda off the “gray list,”²³ but the international community is likely to call for even more transparency over time, and this scrutiny might at any point shift to focus on more substantive elements of Bermuda’s tax system, which are more linked with Bermuda’s value proposition for international business.

In summary, Bermuda faces significant pressure from the international community on taxes. The most damaging proposals would be the Neal bill or President Obama’s proposals on deferred taxation, but these proposals are also the least likely to pass in their current form. The Baucus bill and OECD proposals focus more on tax transparency. These types of proposals are more likely to come to pass, but they are also less damaging to Bermuda’s international business sector. In any event, the stakes here are high for Bermuda, and the situation could change at any moment.

Regulatory challenges

One of Bermuda’s demonstrated competitive advantages is the quality of regulation and supervision by the BMA, the agency that oversees all of Bermuda’s financial institutions. Unfortunately, this competitive advantage is coming under threat from potential changes to worldwide standards and practices in financial regulation, primarily as a result of the global financial crisis.

Developed countries around the world are likely to make significant changes to their regulatory frameworks as a result of failures that led to the current global financial crisis and economic downturn. For example, in April 2009 the G20 established a new Financial Stability Board (FSB) whose mandate was to assess vulnerabilities affecting the financial system, promote coordination and information exchange among authorities

responsible for financial stability, recommend international regulatory standards, and manage contingency planning for cross-border crisis management²⁴.

These sorts of changes put Bermuda's financial services sector at risk. If Bermuda's regulatory framework does not keep pace with the changes emerging from these multiple sources, then on-shore jurisdictions could impose barriers to Bermudian firms. Also, unless Bermuda influences this agenda and implements these requirements in a manner suited to local-market conditions, these changes could decrease Bermuda's ability to differentiate itself by creating thoughtful regulation that is customized to the actual risks Bermudian companies undertake.

To counteract these international pressures, the BMA has been working diligently to achieve mutual recognition and regulatory equivalence under the Solvency II directive and to shape international insurance standards being developed by the International Association of Insurance Supervisors (IAIS). This would allow Bermudian companies to operate internationally under the supervision of the BMA, without being subject to costly additional regulators in foreign jurisdictions or subject to discriminatory barriers to trade. Mutual recognition could also allow companies to manage their capital and reserves more efficiently, which would decrease costs.

While the BMA has a thoughtful plan for achieving mutual recognition, success is not certain. The global financial crisis has underscored the costs of regulatory failure. For example, there was considerable dissatisfaction in the U.K. when failure of Iceland's Icesave bank caused U.K. citizens to lose \$3.7B.²⁵ In this environment, Bermuda will need to work harder to demonstrate it is a jurisdiction with robust standards and effective supervision. Also, while the BMA may be able to get agreement on mutual recognition from technical experts in foreign regulatory agencies, the decision-making on mutual recognition may be impacted by political factors that are difficult to predict.

In summary, regulation of financial services is very likely to increase around the world, with higher standards and a greater push for consistency. This may erode what has historically been a comparative advantage of Bermuda, unless its regulatory framework can keep pace and adapt to the changes.

C. RECOMMENDATIONS

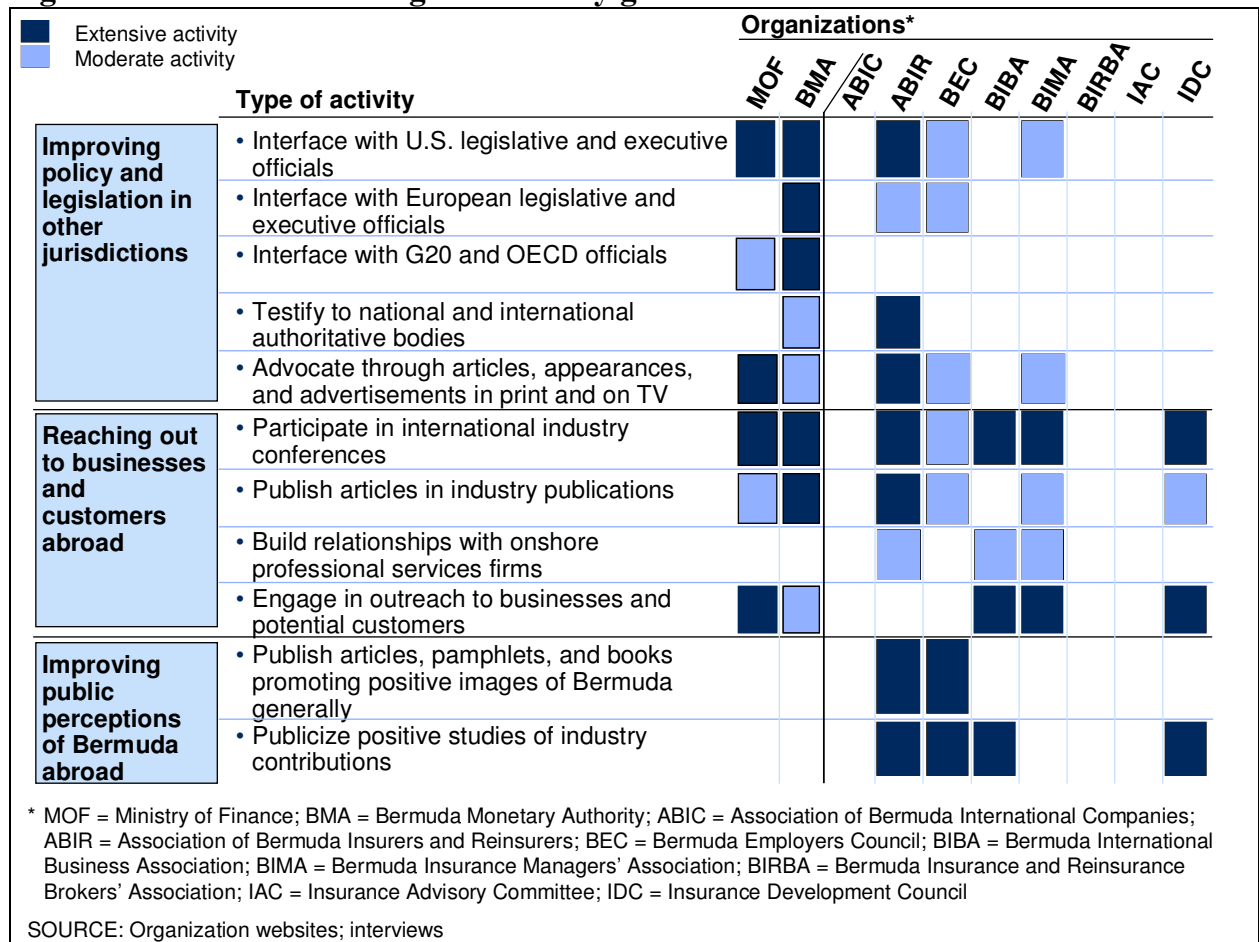
In light of the importance of international business to Bermuda's economy and the external challenges Bermuda faces on taxes and regulation, Bermuda should consider the following opportunities to solidify its international business sector.

Recommendation 1. Reputation and recognition. *Increase the intensity and coordination of efforts by the MOF, the BMA, and the industry to anticipate and*

influence policy changes by foreign governments and regulators, especially on matters of tax and regulation.

Bermuda’s Ministry of Finance is making significant progress in making Bermuda’s case in international circles on tax issues, and the BMA is executing a solid business plan to maximize the chance that foreign regulators recognize Bermuda’s regulatory system as being equivalent to their own, but there is room to do even more. Incremental to these important efforts, there are opportunities to improve coordination and effectiveness of Bermudian outreach to foreign policymakers and regulators. As depicted in Figure 10, current efforts by the Ministry of Finance, the BMA, and trade associations are somewhat fragmented, and there are areas with coverage that is less than optimal. These groups would benefit from working even more closely on outreach. For example, these groups should align on (a) establishing deeper relationships with European policymakers and regulators, (b) using a common set of talking points during all interactions abroad, and (c) conducting joint trips abroad.

Figure 10: Outward-looking activities by government and trade associations



Recommendation 2. Necessary resources. *Ensure that the Ministry of Finance and the BMA have sufficient resources to secure and improve Bermuda's position among global policymakers and regulators.*

As described above, it will be crucial for Bermuda to make the case abroad that its tax system is not anti-competitive and that its regulations are rigorous, while also staying abreast of potential unfavourable legal and regulatory changes abroad. Effectively performing on all these dimensions will require the Ministry of Finance and the BMA to have adequate resources.

Bermuda should provide such resources, raising the necessary funds either through taxes or fees charged to international businesses. The Ministry of Finance may well need additional personnel to establish and maintain constructive relationships abroad and to continue to negotiate agreements and keep pace with evolving international regulatory standards. The BMA may well need additional technical personnel to analyze company data and share technical information with foreign regulators. These organizations could obtain these resources through direct hiring, external contracting, or secondment from industry.

Recommendation 3. Better coordination. *Enhance coordination among the Ministry of Finance, the BMA, and industry associations to improve external marketing to businesses.*

As described above, international businesses are crucial to Bermuda's economy and job creation. Recognizing this, government ministries, the BMA, and trade associations promote Bermuda abroad. See Figure 10.

Just as in the case of outreach to international policymakers and regulators, there are opportunities for government ministries, the BMA, and trade associations to better coordinate in their marketing outreach to business prospects. For example, onshore professional-services firms are often instrumental to decisions by new businesses about where to establish operations, but Bermuda makes only incidental marketing efforts to such onshore professional-services firms today. Furthermore, all of Bermuda's stakeholders could and should do more to coordinate their messaging and marketing strategies toward prospective Bermudian businesses.

Recommendation 4. Tax exemption. *Consider the benefits and consequences of extending Bermuda's corporate tax exemption beyond 2016.*

The exemption of international business from corporate tax is one of Bermuda's most powerful appeals. The exemption will remain in effect until 2016, but businesses are uncertain about whether it will be extended or allowed to lapse, and policymakers have not provided definitive signals in either direction. As a result, some businesses have begun factoring the risk of losing the tax exemption into their current decision-making

about how much capital and how much of their business operations to commit to Bermuda.

Given that the uncertainty surrounding the exemption has begun to affect fundamental business decisions today, the government should begin a serious consideration of the pros and cons of extending the exemption beyond 2016, and of the particular forms that extension could take. If the government did extend the exemption, it would lead to additional businesses remaining on the island, but it may also hurt Bermuda's effort to explain to the rest of the world that it is not a tax haven. Bermuda's government should consider these pros and cons in deciding whether and how to extend the exemption.

Recommendation 5. International arbitration. *Evaluate current international arbitration activity and assess the potential to establish an international arbitration centre to support the insurance and reinsurance sectors.*

With a strong legal system, a concentration of world-class jurists, and a neutral position between the United States and Europe, Bermuda is an attractive site for an international arbitration centre. Companies located in different countries could add provisions to their contracts requiring arbitration of disputes in Bermuda, trusting that the jurisdiction and its jurists will be impartial.

An arbitration centre would generate fee income and bolster Bermuda's reputation as a responsible international financial hub. Establishing an international arbitration centre would require building and/or enhancing dedicated facilities and continuing to develop a pool of arbitration specialists. Bermuda should study the costs and benefits of establishing such an arbitration centre.

Recommendation 6. Promoting business. *Launch a coordinated public and private campaign within Bermuda to communicate the benefits and opportunities of international business to all Bermudians.*

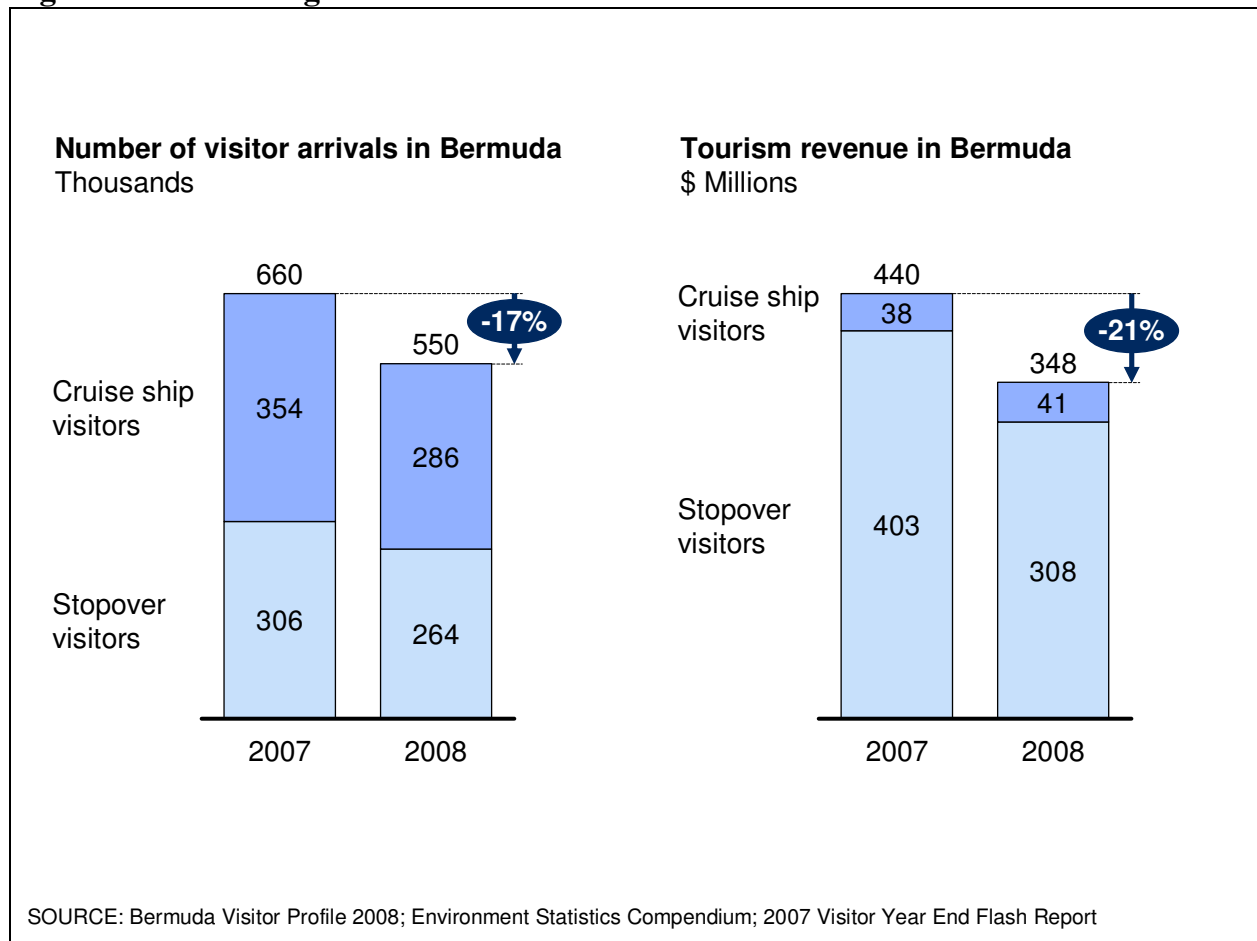
International business is a crucial contributor to Bermuda's broad prosperity. Trade associations like the Bermuda International Business Association (BIBA) have done laudable work to publicize these contributions, but there is more to do, because the public does not seem to fully appreciate how much international business contributes. For example, few Bermudians know that international business, directly and indirectly, accounts for two thirds of Bermuda's output, generates 28% of jobs in Bermuda, and is one of the largest sources of charitable contributions on the island. Since the general public is largely unaware of these facts, public policy debates often hinge on misperceptions about what is ultimately important to the welfare of the broad base of Bermudians. Furthermore, anti-business rhetoric by public figures in Bermuda is often picked up and transmitted by the international business press, thereby undermining Bermuda's reputation as an attractive place to conduct business.

As one step to improve the way Bermudians perceive international business, the government and Bermuda's business leaders should launch a coordinated and sustained public education campaign that clearly articulates the contributions of international business to Bermuda and the opportunities that international business creates for Bermudians.

5. Bermuda's Tourism Sector

Historically, Bermuda has been a premier destination for tourism from the United States, the United Kingdom, and Europe. In recent decades, the Caribbean and other destinations have become more competitive. With their lower cost structures and longer peak season, these competitors have attracted more investment and tourists than Bermuda. Bermuda's air tourism and hotel capacity peaked in the 1980s and have declined in almost all years since. The current global economic downturn has further hurt Bermuda's tourism sector, leading to a 17% decline in visitors and a 21% decline in tourism revenue in 2008 versus 2007. See Figure 11.

Figure 11: How the global recession has affected Bermuda's tourism sector



In recent years, 72% of Bermuda's tourist visitors have come from the U.S. Approximately 23% of visitors come for a business trip or convention. Overall,

Bermuda's tourism is highly seasonal. For example, in 2008, 76% of Bermuda's visitors came during April through September²⁶.

Overnight visitors to Bermuda have decreased by nearly 50% since 1980. This decrease is primarily due to a substantial drop in leisure tourism. For example, vacation visitors from the United States have decreased by 40% in the past 10 years²⁷. This accelerating decline in overnight vacation visitors is alarming because overnight visitors account for the vast majority of tourism revenue, and tourism accounts for 5% of Bermuda's GDP²⁸.

The number of cruise visitors has increased by 140% since 1980, and now slightly more visitors arrive by ship than by air²⁹. The increase in cruise visitors is not a universal boon to the industry: a cruise visitor spends only 15% of what an air visitor spends in Bermuda, mostly because cruise visitors get their meals and accommodations on board ships. Of expenditures by cruise visitors, 53% goes to gifts, souvenirs, and other shopping that has minimal Bermudian content and that leads to only modest employment for Bermudians. Meanwhile, air visitors spend twice as much as cruise visitors on accommodation, restaurants, transportation, and recreation, all categories that lead to significant employment for Bermudians³⁰.

The decline in air visitors has coincided with a decrease in overnight capacity in Bermuda: The number of hotel beds on the island has decreased by 42% in the last 20 years³¹. The challenging economic prospects for hotel developers have driven this decline. The occupancy rate is one of the main drivers of hotel profitability, and Bermuda's occupancy rates tend to be very seasonal, ranging from 81% in August to 32% in December and January, making it difficult to make a profit year round. See Figure 12.

Tourism has traditionally been a major source of jobs in Bermuda and was the largest employer in the 1980s. Over the past 20 years, total employment in hotels and restaurants has decreased by approximately 25%³². Furthermore, Bermudians are increasingly uninterested in taking jobs in the hospitality sector. For example, "Restaurants, cafes, and bars" is one of the lowest-paying sectors in Bermuda, and not surprisingly Bermudians make up only 43% of the workforce in that sector, the lowest share of Bermudians of any sector Bermuda's economy. See Figure 13.

Figure 12: Hotel occupancy by month

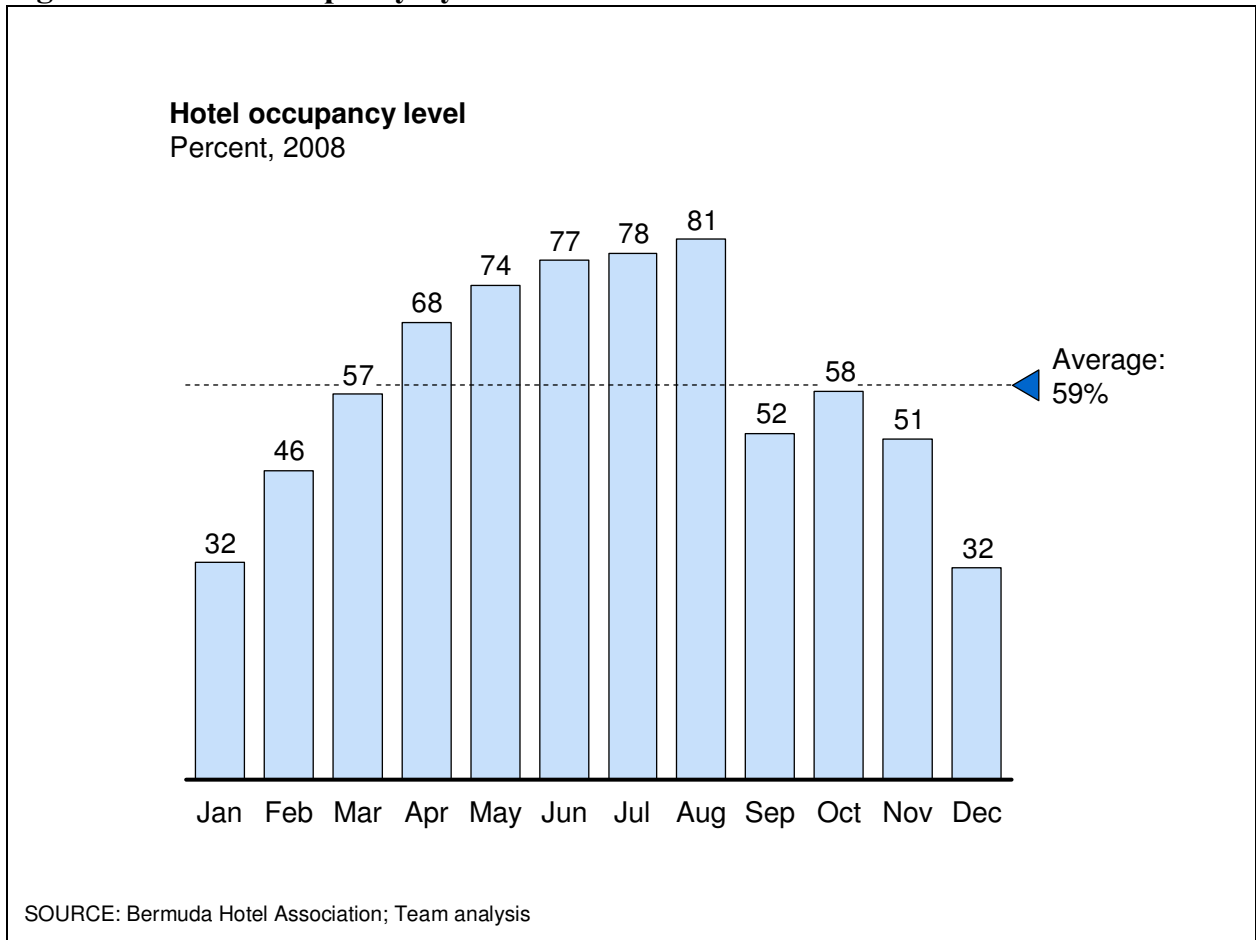
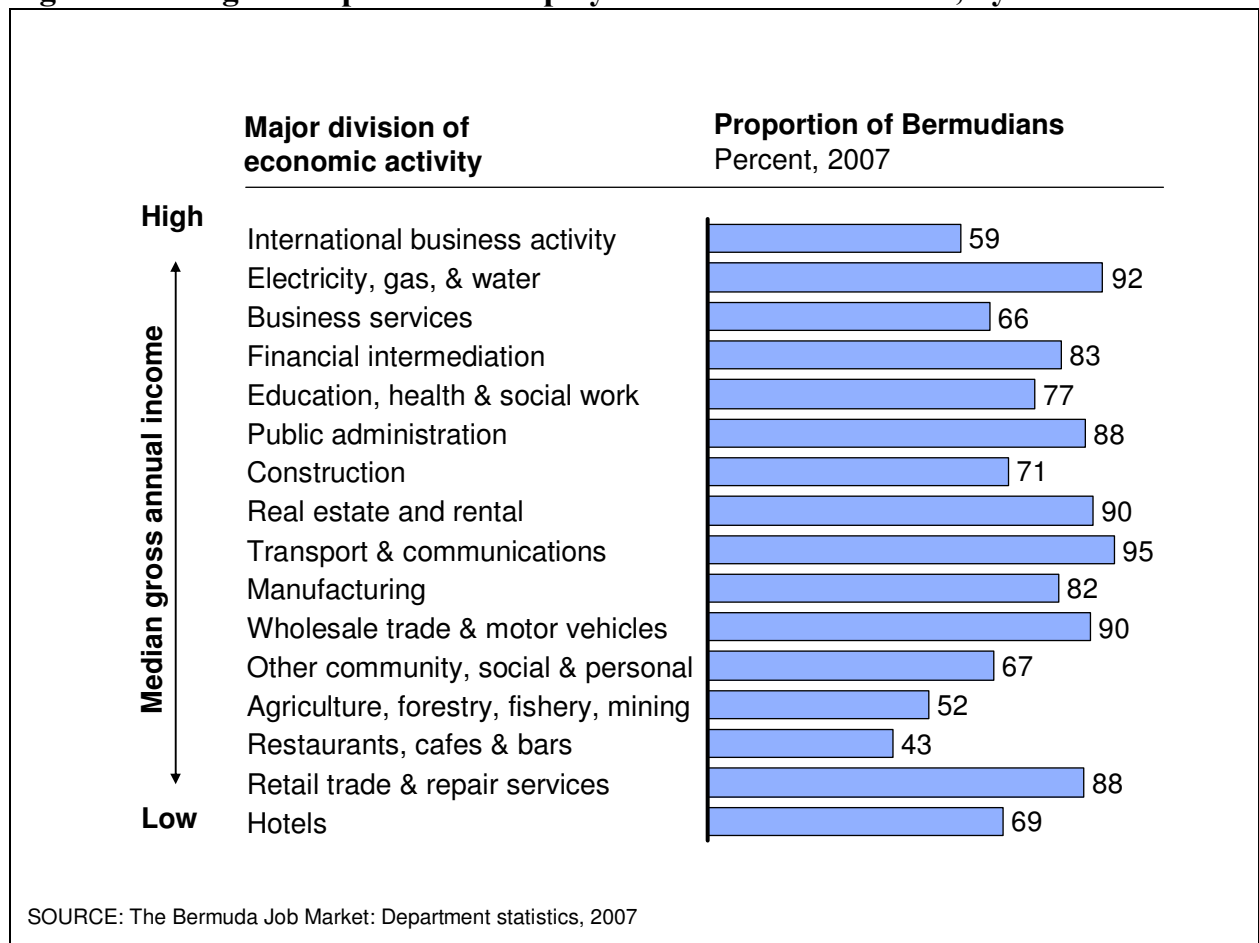


Figure 13: Wages and percent of employees who are Bermudian, by sector

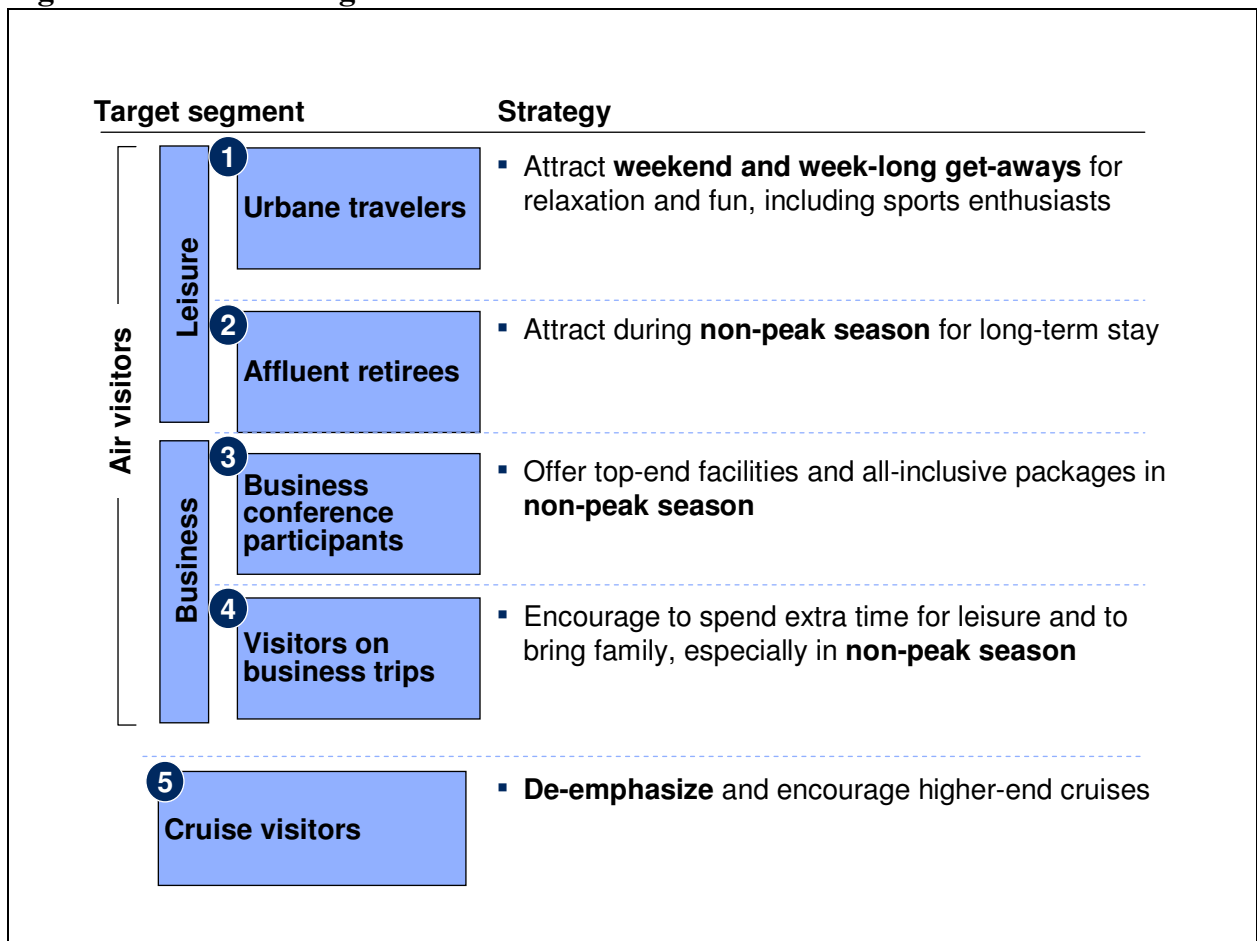


RECOMMENDATIONS

Recommendation 7. Value proposition. *Conduct a comprehensive study on how to strengthen Bermuda’s attractiveness to overnight leisure tourists.*

As explained above, the number of overnight visitors and especially leisure visitors to Bermuda has been in steady decline. To stem this decline, the government should conduct a comprehensive study to reinvigorate Bermuda’s value proposition to leisure visitors. Bermuda has already conducted thoughtful analysis of Bermuda’s marketing strategy. Now, attention should turn toward long-term investments to improve the value proposition on the ground, to ensure that Bermuda remains attractive to carefully selected customer segments. Bermuda should focus incremental investments on high-net-worth individuals and affluent retirees, particularly because these segments often travel year-round, which would alleviate some of the seasonality that hurts the profitability of Bermuda’s tourism sector for both investors and employees. See Figure 14 for a suggested segmentation of Bermuda’s tourist population and approach to each segment.

Figure 14: Potential segmentation for Bermuda’s tourist market



Recommendation 8. Fractional units. *Decrease taxes on the sale of fractional units.*

Bermuda has built few hotels since the 1970s. The lack of new hotel development is due to both the high cost of developing hotels on the island and the low hotel occupancy rates during the non-peak season. As a way to cover their development costs, many developers have looked to a new model that combines traditional transient hotel rooms with fractional units. However, buyers must pay a tax of 10% of the purchase price on new fractional units, which discourages sales.

The government should decrease the tax on fractional sales. This would make new developments more profitable and thus more likely. Decreasing the tax on fractional sales would also likely increase tourism outside the peak season, improving the year-round economics for hospitality employees. Although Bermuda has only recently introduced fractional ownership, the experience to date suggests that these rooms have higher non-peak occupancy rates than traditional hotels. Moreover, fractional owners often spend more money than comparable tourists because they are not immediately faced with the expense of accommodation. Having more high-spending tourists in the non-peak season will increase the number of good, full-year jobs in the hospitality sector.

Recommendation 9. Gaming. *Consider the impact of recommendations from the study of permitting gaming in Bermuda.*

Introducing gaming in Bermuda could result in a modest increase in tourism revenue. For example, in Las Vegas, 2% and 15% of first-time and repeat visitors, respectively, cite gaming as the primary purpose for visiting, and 85% do play at least a little while there³³. As such, introducing gaming could provide a modest increase in the number of visitors and revenue per visitor.

On the other hand, gaming has been associated with negative social consequences. In jurisdictions that allow gaming, it causes a significant psychological, physical, social or professional disruption in the lives of approximately 2% of the population³⁴.

The government should continue to study the potential economic and social impact of introducing gaming in Bermuda. If gaming is allowed, Bermuda should adopt policies to minimize the social harm. For example, limiting the scope of gaming to integrated resorts may allow greater management of the social impact. Bermuda may also want to consider imposing fees for locals to enter casinos, prohibitions on gaming by locals, extensive addiction services, and third-party gaming blacklists. All of these strategies have been deployed by other jurisdictions, with varying degrees of success.

Recommendation 10. Tourism authority. *Investigate creating a public-private tourism authority with ultimate public oversight.*

Effectively promoting tourism requires public-private partnership. The private sector needs to open and run individual hospitality businesses, but there are often opportunities to do more collectively than any individual business could capture individually. Such collective investments include marketing of Bermuda as a destination in general, investments in facilities such as docks and concert venues, and changes to public policies such as establishment of shopping districts.

In Bermuda today, the public-private partnership on tourism is driven out of the government's Department of Tourism, which regularly consults with entrepreneurs and stakeholders in the industry. Bermuda should consider solidifying that partnership by formally establishing a tourism authority with ultimate public oversight.

There would be two main benefits of establishing a tourism authority. First, it would increase the amount of energy and effort the private sector invested in Bermuda's overall hospitality industry by formally giving private-sector stakeholders a seat at the table. Second, it would increase the consistency and transparency of government policies in tourism, by somewhat insulating those policies from change from one government administration to the next.

Many public-private tourism authorities have been very effective. For example, British Columbia's tourism authority successfully led the effort to attract the Olympics to Vancouver in 2010. Similarly, the authority in Curacao was able to show a 41% increase

in overnight visitors in the first half of 2008 compared to 2007, the highest increase for any island destination in or near the Caribbean³⁵.

While tourism authorities vary in terms of organization, financing and oversight, the most attractive model for Bermuda is likely to be a stand-alone authority run by a chief executive officer, funded by a portion of the hotel occupancy tax, and overseen by a board made up of members of the tourism industry, nominated by the private sector, and appointed by the government for fixed terms.

Recommendation 11. Non-peak subsidies. *Subsidize more cultural activities and encourage hotels to offer long-term accommodation options in the non-peak season.*

Bermuda's leisure tourism is highly seasonal compared to the Caribbean islands. Although hotels are relatively full during the summer months, hotel occupancy rates are below 60% for seven months of the year. This seasonality hinders hotel development and decreases the number of year-round hospitality jobs available for Bermudians.

Bermuda's Department of Tourism should strive to increase long-term stays by retirees outside the peak season, in order to improve the economics of hotel development and the attractiveness of hospitality jobs. For example, Bermuda could subsidize additional cultural activities that appeal to affluent retirees in the non-peak season, such as art classes, science lectures, and history tours. In addition, the Department of Tourism could encourage hotels to offer long-term discounts in the winter, for example by promoting such deals through organizations that cater to retirees, such as the American Association of Retired Persons (AARP).

Recommendation 12. Hamilton recreation. *Invest in recreational activities and facilities in Hamilton.*

Approximately one-quarter of all overnight visitors to Bermuda come for business or a convention. Most visitors on business trips stay in Hamilton, which offers few leisure and recreational activities. On average, business visitors in Bermuda add on less than one day to their trip for leisure and spend only \$60 on recreational and leisure activities³⁶.

Bermuda should do more to capture this opportunity by creating attractions that will encourage business visitors to stay longer and spend more while they are in Hamilton. For example, the government should consider (a) creating a pedestrian-only zone to make walking around Hamilton more attractive and (b) subsidizing entertainment venues in Hamilton to encourage outings by business visitors. In addition, the government and industry associations should work more closely together to promote a comprehensive calendar of activities in and around Hamilton.

Recommendation 13. Travel subsidies. *Continue to provide modest government subsidies for tourism through customer vouchers or airfare reductions.*

Tourists direct their money to a host of different businesses in Bermuda, such as hotels, restaurants, gift shops, taxis, and tour operators. No individual business reaps the full benefit of visitor spending, and therefore no business sufficiently invests in encouraging tourism. Therefore, government has a role to subsidize tourism overall, to get visitors to Bermuda in the first place. The government plays this role today, primarily through airfare subsidies.

The most efficient subsidies would be those that directly compensate the tourist for the decision about whether or not to come to Bermuda, rather than what to do while already in Bermuda. As such, the government should continue to avoid subsidizing hotel stays, dining, or activities. Instead, the government should continue to focus on direct subsidies to visitors and on airfare subsidies.

Recommendation 14. Hospitality opportunities. *Increase the public relations effort to educate Bermudians about desirable positions in hospitality.*

Bermudians comprise only 43% and 69% of employees in restaurants and hotels, respectively. See Figure 13. Based on interviews with young Bermudians, many have a negative impression of hospitality, know little about management positions in this sector, and see hospitality as an undesirable career choice. The hospitality industry has not effectively marketed itself to potential Bermudian employees. For example, there are fewer hospitality presentations at school career fairs than in years past.

The Bermuda Hotel Association and the Chamber of Commerce should increase their outreach to youths about the benefits of the hospitality industry and explain the wide range of opportunities in hospitality, from part-time front-line work to full-year managerial positions. Doing so may reduce the need for work permits in the hospitality sector and result in a better match between Bermudians' preferences and jobs that are available to them.

6. Diversifying the Economy

International business and tourism drive Bermuda's economy today. These two pillars have stood Bermuda well in the past, but their potential for future growth is limited, and Bermuda would be well served to further diversify its economy, to minimize disruptions from particular market events. This chapter considers diversification ideas within international business and beyond.

Recommendation 15. New insurance and reinsurance lines. *Expand Bermuda's presence into new lines of business in insurance and reinsurance.*

Insurance and reinsurance are a major part of Bermuda's economy. Bermuda is already a world leader in property and casualty reinsurance, but there is room to further expand and diversify this industry. Bermuda could expand into other types of reinsurance, such as healthcare, or into specialty insurance covering low-frequency, high-volatility events, such as for losses suffered by ocean-going vessels, aircraft, and satellites. These are substantial markets. For example, worldwide aircraft and ocean-marine insurance lines each garner about \$3 billion in premiums each year³⁷.

It is feasible for Bermuda to become a presence in these new markets, for three reasons. First, Bermuda's insurers and reinsurers are in a position of relative financial strength, having come through the worst of the global financial crisis with relatively modest losses and healthy balance sheets. Second, the global crisis has caused disruptions that make it possible to capture talent from abroad. For example, London has traditionally housed many of these insurance lines, but the U.K. just increased its tax rates substantially, so many talented professionals may be receptive to relocation. Third, Bermuda has several core strengths that are well suited to these new markets: its strong legal system, low tax rates, talent in insurance and risk assessment, support services, and frequent visits by insurance brokers.

Bermuda should explore ways to become a major centre for these additional types of specialty insurance and reinsurance. To do so would require a critical mass of activity, because only then would customers and brokers come to Bermuda to shop for this type of insurance, and only then would there be a large enough pool of talent in these new lines to allow the industry to grow. To get critical mass, it may be appropriate for the government to focus the industry on a few new insurance lines that multiple companies will pursue independently. At the same time, trade associations could join with the government in launching new marketing campaigns to promote these new insurance lines.

Recommendation 16. Bermuda Risk Institute. *Create a risk institute to help establish Bermuda as an internationally recognized knowledge centre for risk management.*

Given Bermuda's thriving insurance and reinsurance sectors, it has a well-deserved reputation as being a world leader in assessing and managing risk. Building on this, Bermuda could host conferences and educational programs on risk management. This would have several benefits for Bermuda: It would spur financial innovation, increase business tourism, provide learning and job opportunities for Bermudians, highlight capabilities of Bermuda's companies to potential clients, and expose foreign business leaders to Bermuda as a potential place to locate their businesses.

Bermuda already hosts some conferences and educational programs, through offerings of the Bermuda Foundation for Insurance Studies (BFIS) and the Bermuda Insurance Institute (BII), but there is much more that Bermuda could do on this front. For example, Bermuda could host additional and larger conferences, like those of the Risk and Insurance Management Society (RIMS) and the "Risk Forum" of Institution of Risk Management (IRM). With slightly greater ambition, Bermuda could host courses in insurance and risk management for prestigious foreign universities. For example, Georgia State University has programmes specifically tailored to executives of Munich Re. Bermuda could arrange to have similar programmes for insurance executives located in Bermuda. Even more boldly, Bermuda could establish a satellite campus of an existing business school with a strong reputation for risk management, such as Wharton. For example, INSEAD has a satellite campus in Singapore, and Georgetown University has a satellite campus in Qatar. Finally, Bermuda could establish a permanent research centre in risk management, with researchers located in Bermuda full time, along the lines of Columbia University's Centre for Hazards and Risk Research.

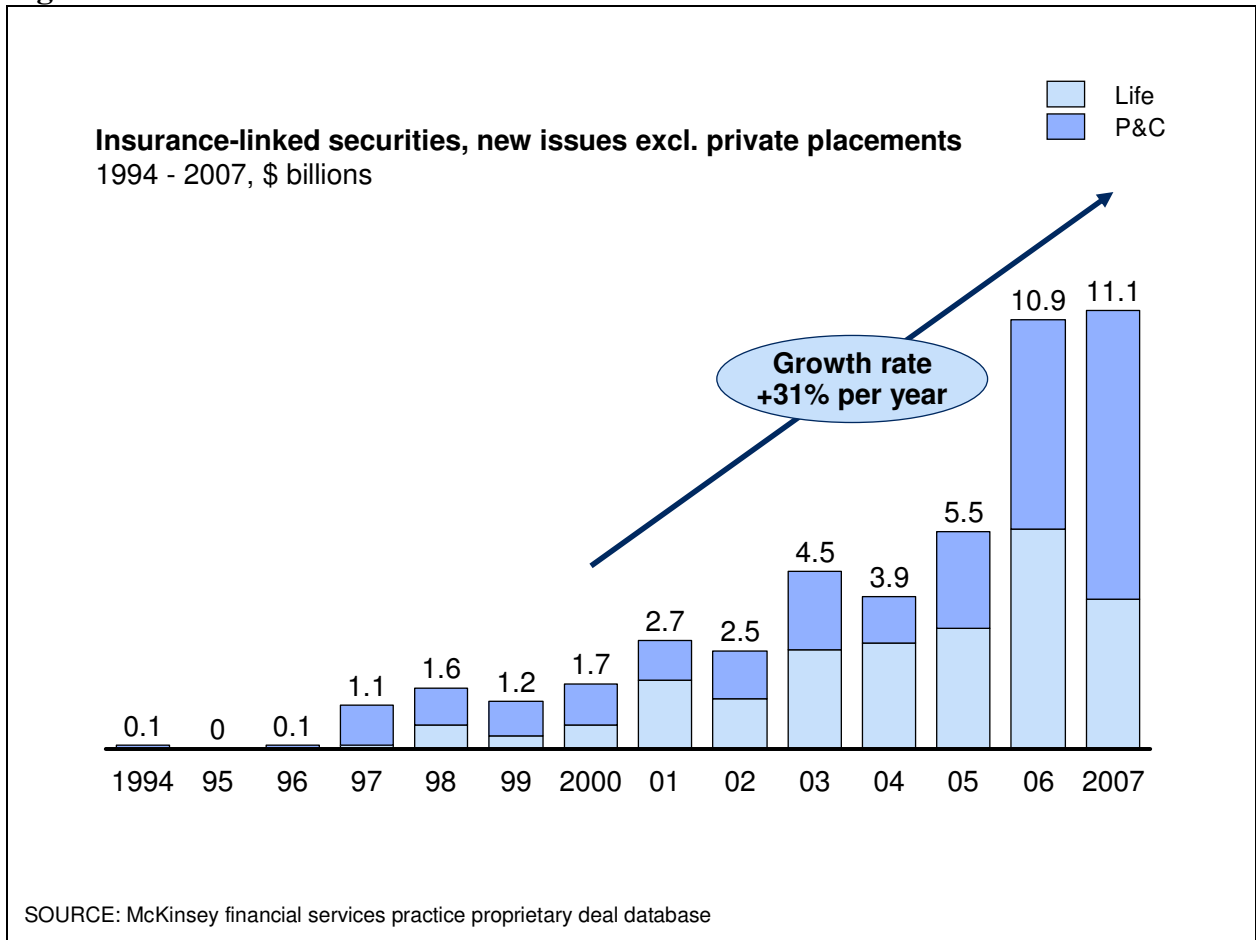
Bermuda should study these options and gauge support across the community. The most attractive approach is likely to be incremental, focusing at first on hosting additional conferences and educational events, and building over time to more-established programmes.

Recommendation 17. Insurance-linked securities. *Deepen Bermuda's primary market in insurance-linked securities.*

Insurance-linked securities (ILS) are capital-markets vehicles that allow a company to shed risk. For example, a catastrophe bond (or "cat bond") is one type of ILS. Under a cat bond, an insurer would sell a bond to an investor and promise to pay the investor principal and interest over time, unless there were some catastrophic event like a hurricane, in which case the insurer's obligations to the bondholder would be forgiven. This allows the insurer to bolster its financial position when catastrophes hit. Demand for ILS have grown dramatically over the past decade. See Figure 15. This market is

likely to continue to grow because ILS allow primary insurers to manage risk in an efficient way.

Figure 15: Growth in insurance-linked securities



Bermuda is well situated to capture a larger share of this market because constructing ILS require the same type of risk-management skills that Bermuda’s companies apply in their existing offerings in property and casualty reinsurance. To date, the development in ILS in Bermuda have been inhibited by (a) limited understanding of ILS by foreign regulators and policy makers, (b) the lack of standardized contracts for ILS, (c) the lack of a fully fleshed-out regulatory framework for ILS in Bermuda, and (d) the relatively small scale of the market in Bermuda, which has increased the costs of constructing ILS. For example, to date, there are few legal firms in Bermuda that have extensive expertise in ILS and can hence produce the legal documents quickly and cheaply.

Under the sponsorship of the BMA, Bermuda has recently established a working group to study how to promote ILS in Bermuda, primarily by establishing a more-rigorous regulatory framework for ILS, and the BMA has already issued a first set of regulatory guidelines on Special Purpose Insurers (SPIs).

Bermuda should continue to promote the deepening of its ILS markets by (a) supporting the BMA working group; (b) empowering the BMA to continue to build a rigorous regulatory framework for ILS; (c) encouraging Bermudian companies to create an independent corporation, akin to the U.S. Insurance Services Office, that would develop standardized ILS contracts; and (d) pulling together the Ministry of Finance, the BMA, and trade associations to help educate foreign governments and regulators about the benefits of ILS.

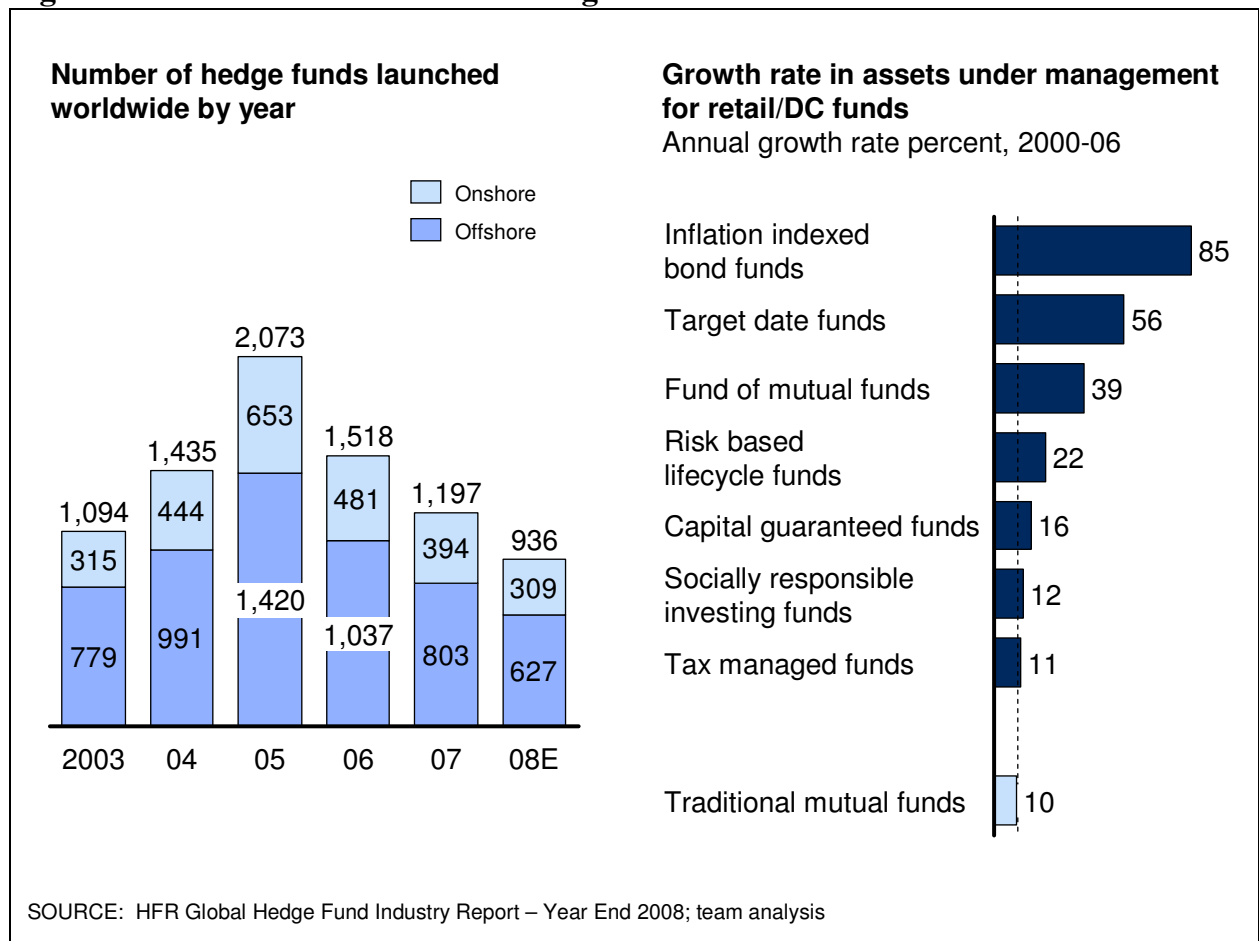
Recommendation 18. Funds. *Attract more asset-management funds and fund administrators.*

The global financial crisis and recent scandals have created uncertainty about both the direction of the asset management industry and the future shape of its regulation. For example, the Madoff scandal has led many in the U.S. to call for more rigorous regulation of hedge funds, and investors are now more likely to seek funds with high-calibre and reliable fund administrators.

Bermuda is well positioned to capitalize on this new environment and to grow its asset-management industry. It already has an active fund management and fund administration sector. In addition, Bermuda's tradition of rigorous but efficient regulation is ideal to attract asset management business. Increasingly, funds compete for customers based on innovation and the introduction of products with greater sophistication. It is a fast-moving market, with over a thousand funds launched each year. See Figure 16. Fund managers will favour jurisdictions that can give the fund customers comfort about the safety of the funds but also accommodate rapid product innovations. Bermuda's BMA is well suited to fill that need in asset management, as the BMA does in the insurance and reinsurance sectors.

Bermuda should work to become an even more important centre for funds and fund administration by (a) proactively setting world-leading standards for safety and accountability, (b) developing the BMA's capability to regulate funds rigorously and efficiently, and (c) bolstering outreach efforts to fund managers and administrators that might establish operations in Bermuda.

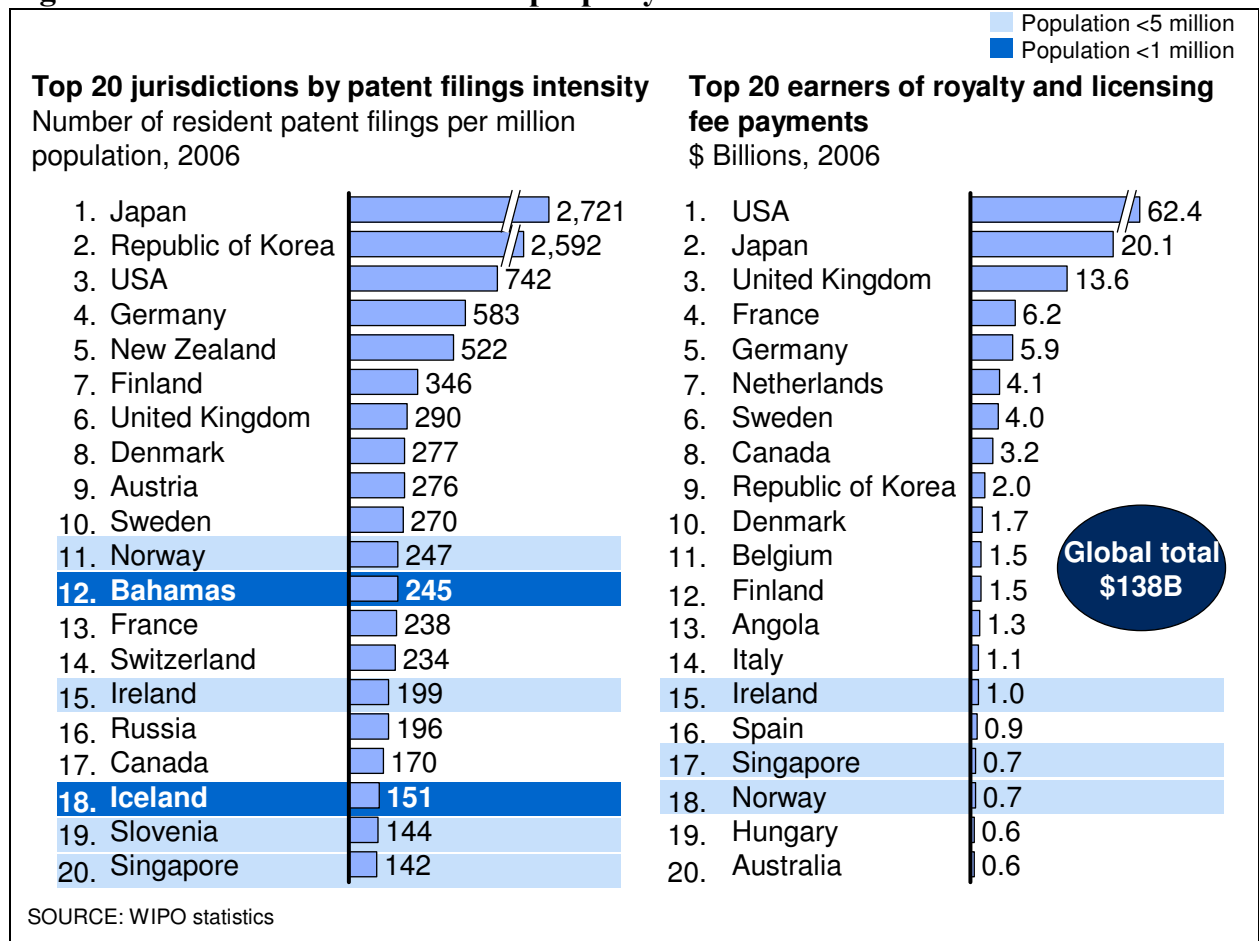
Figure 16: Creation of new asset-management funds



Recommendation 19. Intellectual property centre. *Become a global centre for intellectual property ownership.*

Intellectual property (IP), like patents and copyrighted works, generates income from licensing and royalties. Companies and other owners of IP can exercise some discretion about where geographically to locate their IP. The jurisdiction in which the IP is housed will reap benefits from the income it generates. Today, cross-border licensing and royalty payments amount to \$140 billion per year. See Figure 17. This number is likely to rise as intellectual property becomes an increasingly important driver of business competitiveness and growth. Small jurisdictions, like the Bahamas and Iceland, are often major repositories of IP.

Figure 17: Markets for intellectual property



Bermuda is well situated to be a home for IP, for two reasons. First, Bermuda’s strong legal framework based on English Common Law allow owners of IP to protect their rights with manageable legal costs. Second, Bermuda’s low tax rates allow owners of IP to reap higher after-tax profits from licensing and royalty payments, and then to invest those profits at higher after-tax returns. Indeed, these same factors are behind why Bermuda rose to prominence in reinsurance. In both instances, companies found that they could profitably house a valuable asset in Bermuda. For reinsurers, the asset is financial capital. For intellectual property, the assets are patents and copyrights.

To become a hub of IP ownership, Bermuda should initiate a global outreach campaign to encourage corporations either to register their intellectual property in Bermuda or to establish IP ownership entities in Bermuda that would receive income from global IP use, wherever registered. The outreach would highlight Bermuda’s advantages, combined with guidance on how Bermuda’s IP regime fits into the complex, jurisdiction-specific patchwork of global IP law. To ensure that Bermuda receives the full benefit of increased IP activity, we encourage legislators and the government to continue their efforts to enhance Bermuda’s IP regime. Useful advances would include statutorily recognizing IP registrations in major markets like the United States and European Union,

entering into treaties to ease cross-border IP management, reducing trademark registration periods, introducing annuities for patents, and creating a copyright register. To ensure that it can administer the new IP activity efficiently, the government should consider investing in a faster, more streamlined technological backend, allowing automatic registration, and bolstering skilled staff where review of applications is required.

Recommendation 20. Residency. *Provide permanent residency for wealthy individuals who create jobs in Bermuda.*

Wealthy individuals have made valuable contributions to Bermuda, by making charitable contributions, establishing businesses, and spending money, which leads to jobs and income for others. There are over 100,000 individuals worldwide with net worth of \$30 million or more. About 40% of those live in the United States.³⁸ Bringing just 50 of such individuals to Bermuda could generate over \$100 million in economic output in Bermuda each year.³⁹ There would be even greater benefits from charitable contributions and businesses these individuals would run in Bermuda.

Bermuda should explore ways to provide incentives for such wealthy individuals to come to Bermuda and contribute to Bermuda's economy. For example, Bermuda should consider providing permanent residency to wealthy individuals and their children if those individuals commit to investing large amounts of money in Bermudian businesses or making substantial charitable contributions, for example by building schools or medical facilities.

Of course, Bermuda must take care in allowing additional people to immigrate, because resources like real estate are already scarce. In this case, the number of immigrants would be very small, and the costs would be more than outweighed by the lift these individuals would provide for the overall economy.

Recommendation 21. Opportunities from the ocean. *Increase licensing and investment for ocean exploration and sustainable exploitation.*

Bermuda has declared the sovereign right to manage and use the natural resources in its "exclusive economic zone," which it defines as the waters within 200 miles of its shores. This zone potentially has a wealth of resources, including mineral deposits, fish, and useful chemicals and compounds from marine organisms. For example, chemical compounds might have medical uses, and algae can be used to make diesel fuel. The Bermuda Institution of Ocean Studies (BIOS) and others have begun to explore the resources around Bermuda, but the extent and value of these resources is still largely unknown.

Bermuda should create a more transparent and sophisticated licensing regime for resources in its exclusive economic zone. This would increase investment in developing these resources for sustainable commercial use, which would in turn generate a lasting

stream of revenue for Bermuda's government. To kick-start these investments, it may be necessary for Bermuda to commission a more exhaustive study of the resources in its surrounding waters.

7. Bermuda's Socioeconomic Foundations

For Bermuda to continue to grow and prosper, it will need solid social and economic foundations: opportunities for all Bermudians to education themselves and develop new skills, labour markets that provide opportunities for Bermudians and sufficient talent for businesses to thrive, a safe and affordable environment in which to live and work, and a government that provides high-quality services efficiently. This chapter discusses how Bermuda is faring in these areas today

A. EDUCATION

Education is one of the most important foundations for Bermuda's long-term success. Education creates opportunities for individual Bermudians, which in turn leads to economic growth, fewer drains on government resources, and improved social outcomes, such as lower crime rates. That is why education is justifiably one of the top priorities of Bermuda's government.

Recommendation 22. International curriculum. *Complete the adoption of international standards for the curricula in public schools.*

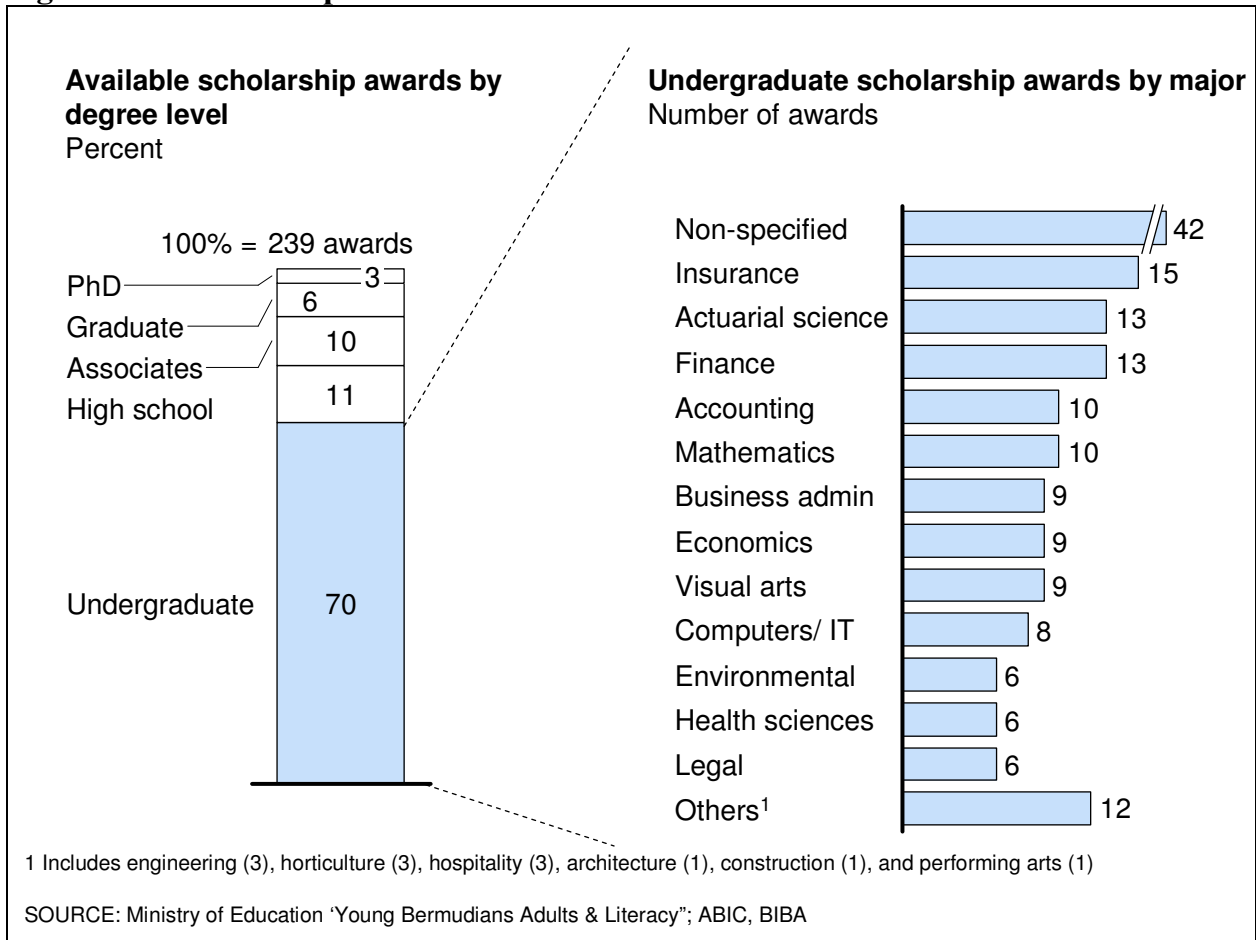
According to the Hopkins Report, students in Bermuda's public education system do not consistently perform well. The condition of Bermuda's primary and secondary schools is especially critical because many Bermudians do not pursue post-secondary school. This makes it important that Bermuda use the most rigorous curricula possible in its primary and secondary schools. In addition, foreign universities do not recognize the curricula that were used in Bermuda's public high schools in the recent past, making it difficult for Bermudians to attend universities abroad. Continuing to adopting internationally recognized curricula would address both these challenges.

Recommendation 23. Scholarship management. *Streamline scholarship management to better address skill needs and reduce the burden on applicants.*

There is ample funding for scholarships for Bermudians. In 2008, Bermudians were eligible for 154 different educational scholarships, with four million dollars in total funding⁴⁰. International businesses contributed about half of these funds. About half of the undergraduate scholarships were dedicated to disciplines related to insurance, finance and accounting. . Some of the business-supplied scholarships were coordinated through

the Association of Bermuda International Companies (ABIC), but most scholarships are set up independently and have their own application processes.

Figure 18: Scholarships in Bermuda



There are three opportunities to improve how these funds are allocated. First, Bermuda would benefit from having a centralized process for applying for these scholarships. Today, students have to fill out separate applications for each scholarship, which takes time and energy and ultimately leads to fewer applications. Second, more of Bermuda’s scholarship funding should be allocated for education before university. For example, private high schools cost as much as \$15,000 per year, but only 10% of scholarship funds are for primary and secondary education. Third, Bermuda might benefit from a more systematic and coordinated process to match educational focus to the needs of Bermuda’s economy. For example, only 8% of scholarship funding goes toward education in computer science and information technology, where there is a palpable shortage of skills in Bermuda.

Recommendation 24. Vocational schools. *Continue to strengthen training and vocational schools, especially in underrepresented occupations.*

For the many Bermudians who do not pursue post-secondary school, there are relatively few opportunities for vocational training in Bermuda. The hospitality training school was closed in the 1990s, and today there is only a small hospitality programme at Bermuda College. The National Training Board offers programmes for electricians, plumbers, and mechanics, but the programme is small, and most people in these fields go abroad for further training.

Bermudians hold many jobs at rates higher than their small population would predict, but there is room to improve in certain sectors. Bermudians have done particularly well in international business occupations. For example, nearly four out of every thousand Bermudians are underwriters, eight times more than in Switzerland, New York, or Vermont⁴¹. However, support services like computer analysts and lawyers do not have as many Bermudians proportionally as some other jurisdictions. Additionally, Bermudians comprise only 43% and 69% of employees in restaurants and hotels, respectively⁴².

The government and industry associations should redouble their efforts to ensure that Bermudians develop needed skills in underrepresented occupations. The government should conduct a thorough evaluation of the state of vocational training to assess the need for additional courses or certifications that would better prepare Bermudians for employment.

B. BERMUDA'S LABOUR MARKETS AND TALENT POOL

Bermudians hold many jobs at rates higher than their small population would predict, but there is room to improve in certain sectors. Bermudians have done particularly well in international business occupations. For example, nearly four out of every thousand Bermudians are underwriters, eight times more than in Switzerland, New York, or Vermont⁴³. However, support services like computer analysts and lawyers do not have as many Bermudians proportionally as some other jurisdictions. Additionally, Bermudians comprise only 43% and 69% of employees in restaurants and hotels, respectively⁴⁴.

Recommendation 25. Term limits. *Waive term limit and work permit requirements for certain occupations for which applications have historically been approved 100% of the time.*

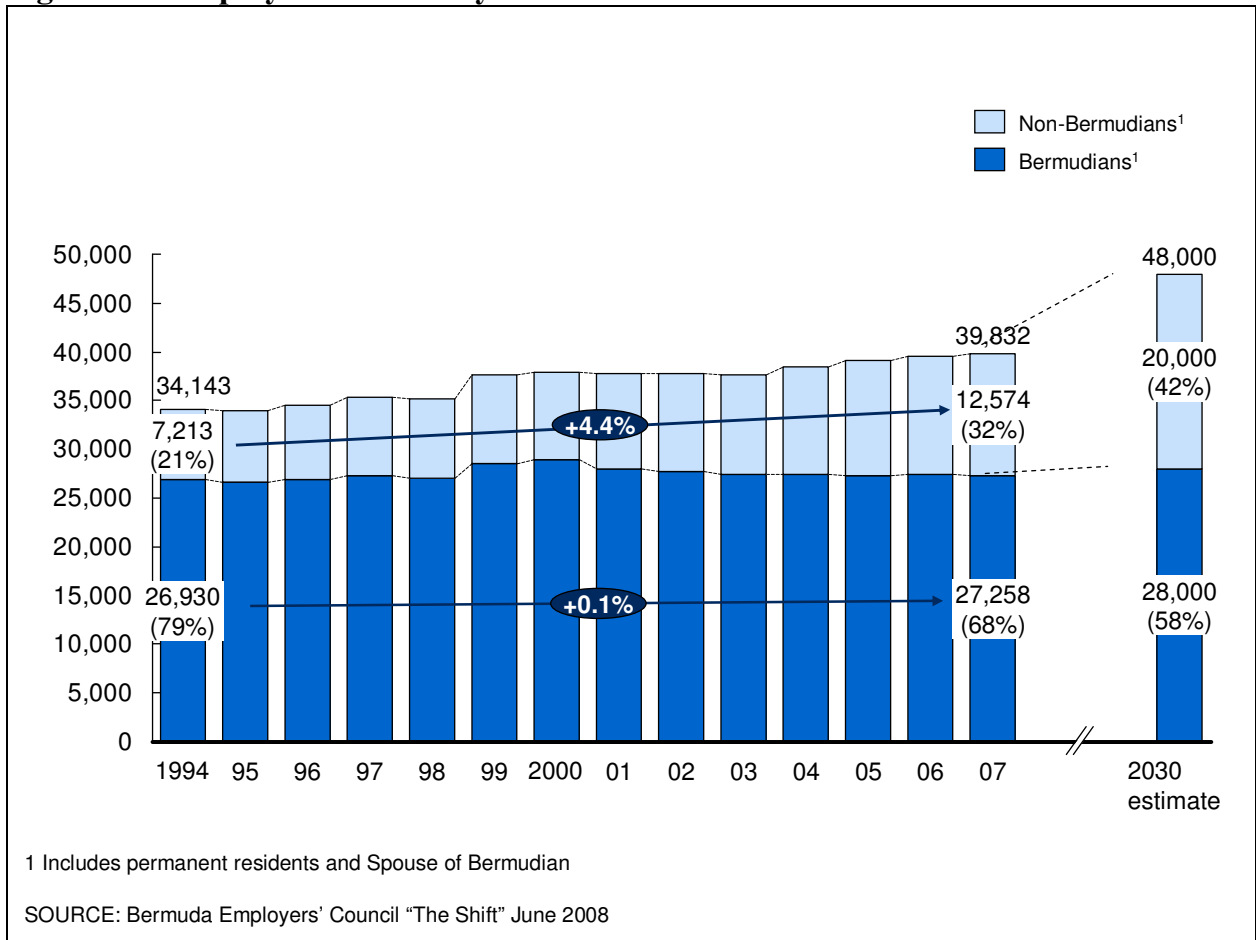
Given Bermuda's population increase and growth in the economy, Bermuda must rely on foreign guest workers to support its economy. For example, the Bermuda Employers' Council estimates that Bermuda will require 20,000 guest workers by the year 2030, which is 40% more than today. See Figure 19.

In order to hire a non-Bermudian, employers must apply for a permit and demonstrate that no qualified Bermudian is willing and available to take the position. Bermuda's

Department of Immigration approves 90-95% of all work permit applications, in a process that typically takes a month or more⁴⁵.

The Department of Immigration should waive work-permit and term-limit requirements for occupations and positions that have historically been 100% approved. This would speed up the employment process without sacrificing the important objective of employing qualified Bermudians.

Figure 19: Employment trend by Bermudian status



C. SAFETY, AFFORDABILITY, AND THE ENVIRONMENT

Many believe that Bermuda is less safe and more costly than it used to be, and that its ecological environment is deteriorating, but there have been very few systematic studies of those issues.

Recommendation 26. Public safety. *Intensify efforts to reduce crime and ensure public safety.*

The reported number of violent, theft, or burglary crimes increased 8% from 2007 to 2008⁴⁶, and Bermudians are concerned. Twenty-one percent of the public identifies crime as the biggest issue facing the island, more than for any other issue⁴⁷. Business leaders consistently cite crime as a major concern in deciding where to base their operations. One of the challenges in combating crime is that the Governor, rather than the elected government, controls the police force.

Bermuda's government should study best practices in public safety from analogous jurisdictions to identify lessons that could apply to Bermuda. Bermuda's government should also seek a tighter relationship with the Governor on how the police force is equipped, trained, and deployed.

Recommendation 27. Affordable housing. *Continue to encourage the development of affordable housing.*

Housing costs in Bermuda have subsided somewhat during the current economic downturn, but these costs remain high, and there is a chronic shortage of affordable housing. The government has fostered creation of additional units of affordable housing, for example by re-purposing old hotel property and requiring new developments to include some affordable housing. Bermuda should continue to push such initiatives.

Recommendation 28. Cost study. *Launch a comprehensive study to review the high cost of living and doing business and identify potential areas to reduce costs.*

Many believe that it is costly to live and do business in Bermuda, but there have not been any systematic studies of those costs and their drivers. The government should analyze the costs of living and doing business in Bermuda, by major type of cost, and in comparison to other analogous geographies. This information would provide businesses and the government with a fact base to know what kinds of investments and policy changes would have the greatest impact on lowering costs in Bermuda.

Recommendation 29. Green technology. *Make Bermuda a leader in reducing waste and using green technology.*

Bermuda has been at the forefront of green technologies by collecting rain water in cisterns, using natural ventilation rather than air conditioning, and using natural building materials. As the world begins to focus more on sustainability and "green" technology, Bermuda has an opportunity to be at the forefront of these trends.

Bermuda should launch a study into how it could bolster its reputation as a "green" jurisdiction. This might be through adoption of electric cars or buses, which are more feasible in Bermuda than elsewhere, given Bermuda's small size. Or it might be through alternative energy sources, such as from tidal currents, of which Bermuda has abundant supply. If Bermuda pursued such initiatives, businesses and wealthy individuals would be more excited about basing themselves in Bermuda.

D. EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT

The public sector is one of the largest employers in Bermuda, and government has grown steadily over the past decade. This is partly due to the increasingly complicated nature of public services, such as regulation of financial services, but there may also be opportunities for Bermuda's government to become more efficient, to do more with less.

Recommendation 30. Government service. *Increase programmes to attract, develop, and retain high-calibre Bermudians in government.*

International business leaders in Bermuda identify government decisions, responsiveness, and efficiency as key factors in deciding where to locate their business. One of the keys to high performance on these dimensions is to have talented individuals working in government.

The government should enhance its efforts to attract, develop, and retain top Bermudian talent. For example, government might (a) increase the use of bonuses and performance-based compensation to attract top university graduates, (b) tie scholarships to a commitment to working for the government for a set number of years afterwards, (c) establish a rotation program to allow top private-sector employees to work in government for a time to gain public sector experience, or (d) launch additional continuing education programs for existing government employees.

Recommendation 31. Government efficiency. *Ensure that the government has sufficient skills and resources to continue making its processes more efficient.*

To control the growth of government and empower government to do more with fewer resources, it should invest in management skills and operational approaches that will lead to greater efficiency over time. For example, most large commercial enterprises have centres of excellence in "lean operations" or "six sigma." Experts in these areas move from one area to another in the enterprise, fundamentally redesigning business process to improve quality and reduce cost. These approaches are starting to show dramatic improvements in government operations in other jurisdictions.

Recommendation 32. Transparency. *Improve the transparency of government processes and decision-making.*

The survey of Bermuda's commercial, government, and non-profit leaders found that "government transparency" was both important and an area in which Bermuda could improve. Further interviews identified particular opportunities. For example, many found the process for obtaining government permissions to be time-consuming and opaque. There was the perception that the government did not always have well-specified criteria for making its decisions.

Bermuda's government should strive to improve its transparency and counteract these perceptions. Commercial sector research has shown that transparency is one of the

greatest drivers of customer satisfaction is transparency. For example, best-practice lenders give their customers explicit information about when their loan applications will be approved or declined. Bermuda's government should strive for similar transparency. In addition, Bermuda should increase the number of decisions it makes according to well-specified criteria, and it should publish these criteria.

8. Moving Forward with Bermuda First

This report is a call to action. Bermuda's strengths in tourism and reinsurance have made it one of the most prosperous places in the world, but Bermuda should not rely on these sectors to drive Bermuda's progress forever. Global trends, driven in part by the global financial crisis and economic downturn, have led to some fundamental challenges for Bermuda's economy. Bermuda needs to solidify its socioeconomic foundations and plant the seeds for its future economic growth.

The Bermuda First organization will have an important role to play in charting a new course for Bermuda and building momentum for change. The organization is uniquely positioned, as a non-partisan effort and public-private partnership, pulling together leaders from all across Bermuda.

Going forward, Bermuda First will follow a four-part mandate. Bermuda First will: (a) advocate change on behalf of all Bermudians; (b) provide a platform for diverse stakeholders to discuss issues; (c) establish a process to monitor progress; and (d) further explore several topics that require further study.

The experiences of other geographies, such as Singapore and Switzerland, have shown that active public-private partnership is a key to success for efforts like Bermuda First. As such, Bermuda First will continue to foster such a partnership in Bermuda, supported by the following governance: Going forward, there will be five co-chairs, the Premier, the Opposition Leader, and three leaders from the private sector. The Steering Committee will be broadened to include additional members from throughout Bermuda's commercial, government, and non-profit sectors.

To drive the ideas and bring about change on the ground, Bermuda First has formed four subcommittees: International Business, Tourism, Economic Diversification, and Socioeconomic Foundations. These subcommittees will welcome participation from all Bermudians. Members of the Steering Committee will lead each subcommittee and draw in others from the commercial, government, and non-profit sectors, as well as Bermudian youth. Success in these subcommittees will hinge on a continued sense of volunteerism, in line with the substantial contributions Bermudians have already made in Bermuda First.

Bermuda First is committed to transparency in achieving its vision and implementing its mandate. Therefore, Bermuda First will continue to broaden its engagement with the public and ensure an open and ongoing discussion about its recommendations. Bermuda

First will participate in radio discussions, lead public workshops, and publish articles. Bermuda First is also in the process of finalizing an interactive website:

www.bermudafirst.com or www.bermudafirst.bm

This website will contain the full contents of this report. It will also provide regular progress reports, the schedule of events for its various subcommittees and working groups, and information on how individuals and companies can get involved. The website will facilitate open discussion and will help drive action.

For Bermuda First to have impact, it must do more than communicate. It must also lead to real change on the ground in Bermuda, by actual implementation of its recommendations. Several of the recommendations are already on their way toward implementation. For example, (a) the Ministry of Finance has already made significant progress in improving Bermuda's reputation for responsible taxation by signing 18 tax agreements and getting Bermuda on the OECD's "white list," (b) the BMA has already convened a working group to study how to deepen Bermuda's presence in insurance-linked securities, and (c) Bermuda's public schools are adopting the Cambridge International Curriculum.

Bermuda has already made tremendous progress on several fronts, but there is more to do. Several of the recommendations in this report require further study. For example, it is clear that Bermuda should expand into new lines of insurance and reinsurance, but it is not yet clear which particular lines and what will be required to make that expansion a reality. Bermuda First will help organize efforts to study such issues.

Some of the recommendations in this report will lead to immediate impact, such as creating incentives for wealthy individuals to live in and contribute to Bermuda. Other recommendations will take time to bear fruit. For example, fostering exploration and sustainable development of the surrounding oceans will take years to develop, but the long-run dividends are clear, so Bermuda should begin this journey now.

The recommendations in this report are a good starting point to launch the change required to secure Bermuda's economic miracle for future generations. Now, we turn to implementation and execution. It will take the active support and participation of every Bermudian to turn these ideas into reality. This is the challenge facing Bermuda today. Bermuda's future is ours to create. We encourage you to contribute.

Appendix: People Involved in Bermuda First

STEERING COMMITTEE⁴⁸

1. Dr. the Hon. Ewart F. Brown JP, MP (co-chair), Premier of Bermuda
2. Kim Swan, JP, MP (co-chair), Opposition Leader of Bermuda
3. Don Kramer (co-chair), Chairman and CEO, ArielRe
4. Rod Attride-Stirling, Partner, Attride-Stirling & Wolniecki
5. Philip Butterfield, CEO, Bank of Bermuda HSBC
6. John Collis, Partner, Conyers Dill & Pearman
7. The Hon. Paula Cox , JP, MP, Deputy Premier and Minister of Finance
8. Peter Durhager, (co-chair) Senior Vice President and CAO, RenaissanceRe Holdings Ltd.
9. Rees Fletcher, President & CEO, ACE Bermuda
10. Seamus McBride, President & CEO, Bacardi International
11. Mike McGavick, CEO, XL Capital, Ltd.
12. Brian O'Hara, Chairman and former CEO, XL Capital, Ltd.
13. Allan Pelvang, Head of Office, Fidelity International Ltd.
14. Gerald Simons, President & CEO, Argus
15. Alan Thompson, CEO, Butterfield Bank
16. Gil Tucker (co-chair), Partner, Ernst & Young
17. John Wight, CEO, BF&M
18. Gregory W. Slayton (ex-officio), former U.S. Consul General to Bermuda

ADVISORY COMMITTEE

1. Ed Ball, Bermuda Public Services Union
2. Emilio Barbieri, MEF Group
3. Phil Barnett, Island Restaurant Group
4. Bruce Barritt, Barritt's
5. Marty Becker, Max Capital
6. John Berger, Harbor Point Re
7. Mitch Blaser, Ironshore
8. David Brown, Flagstone Re
9. Wendell Brown, Brown & Co
10. Michael Brennan, Bacardi
11. Jim Bryce, IPC Re
12. Simon Burton, Lancashire Re
13. Jim Butterfield, Butterfield and Vallis
14. Malcolm Butterfield, KPMG
15. Wayne Caines, Digicel
16. Robert Childs, Hiscox
17. Michael Collins, Bank of Bermuda HSBC
18. George Cubbon, AIG
19. Julian Cusack, Aspen Re
20. Alec Cutler, Orbis Funds
21. Bob Deutsch, Ironshore
22. Curtis Dickinson, Bank of Butterfield
23. David Dodwell, The Reefs Hotel
24. Michael Dunkley, JP, MP
25. Charles Dupplin, Hiscox
26. Matthew Elderfield, Bermuda Monetary Authority
27. David Ezekiel, Association of Bermuda Insurance Companies
28. Chris Furbert, Bermuda Industrial Union
29. Dominic Frederico, Assured Guaranty
30. James Gibbons, Capital G
31. Diane Gordon, The Bermuda Chamber of Commerce
32. The Hon. Pam Gordon, JP, MP, former Premier of Bermuda
33. Charles Gosling, Goslings, Ltd.
34. Steve Green, KPMG
35. Duranda Greene, Bermuda College
36. Greg Hagood, Nephila Capital
37. John Harvey, Bermuda Hotel Association
38. Greg Hendrick, XL Re
39. Kip Herring, Max Capital
40. Oliver Heyliger, Willis Bermuda
41. Tats Hoshina, Tokio Millennium Re
42. Preston Hutchings, Arch Capital
43. Vincent Ingham, BELCO
44. Dinos Iordanou, Arch Capital
45. Gregory Jordan, Cable and Wireless
46. Brad Kading, Association of Bermuda Insurers and Reinsurers
47. Kenneth LeStrange, Endurance
48. Sheila Lines, KeyTech
49. Shaun Morris, Appleby Bermuda
50. Francis Mussenden, BTC
51. Pam Barit Nolan, The Centre on Philanthropy
52. Ed Noonan, Validus Re
53. Cheryl Packwood, Bermuda International Business Association
54. Graham Pewter, Catlin
55. Robert Porter, Platinum Re
56. Graham Redford, Bermuda Employers Council
57. Joe Rego, AON
58. Bob Richards, JP, MP
59. Alan Richardson, Bermuda Monetary Authority
60. Ralph Richardson, The ACE Foundation
61. Andrew Stimson, Intelsat

62. Sir John Swan, MBE, JP, MP, former
Premier of Bermuda
63. Anthony Taylor, Montpelier Re
64. Patrick Tannock, ACE Bermuda
65. Patrick Thiele, Partner Re
66. Paul Van Pelt, Chubb Atlantic
67. Mark Watson, Argo Group
68. Susan Wilson, Masters
69. Greg Wojciechowski, Bermuda
Stock Exchange

OTHER PEOPLE INTERVIEWED

Cabinet members and government

1. The late Hon. N. B. A. Bascome, JP, MP, Minister of Health
2. The Hon. G.A. Blakeney, JP, MP, Minister of Environment and Sports
3. The Hon. D.D. Butler, JP, MP, former Minister of Social and Cultural Rehabilitation
4. The Hon. E.G. James, Minister of Education
5. The Hon. T.E. Lister, former Minister of Energy, Telecom and E-commerce
6. Rozy Azhar, Chief Immigration Officer
7. Debbie Blakeney, Office of the Tax Commissioner
8. Jeremy Cox, Bermuda Monetary Authority
9. Ron Farier, Department of Statistics
10. Winniefred Fostine-DeSilva, Collector of Customs
11. Billy Griffiths, Director of Tourism
12. Hiram E. Edwards, Acting Director of Telecommunications
13. Richard Fox, Office of the Tax Commissioner
14. Warren Jones, Permanent Secretary to the Minister of Health
15. Anthony Manders, Ministry of Finance
16. Kevin Monkman, Permanent Secretary to the Minister of Education
17. Valerie Robinson-James, Department of Statistics
18. Gilbert Rowling, Department of Tourism
19. Donald Scott, Permanent Secretary to Ministry of Finance
20. Neil Seecharan, Department of Tourism
21. Members of the United Bermuda Party
22. Members of the Progressive Labour Party

Financial services

23. Phil Barnes, AON Captives
24. Michael Hamer, Albourne Partners
25. Jill Husbands, Marsh Captives Management
26. Stuart Lacey, SHC Capital
27. Dennis Mahoney, AON
28. Lyndon Quinn, Bank of Bermuda HSBC
29. Ashley Parker, Bank of Bermuda HSBC
30. Michael Schrum, Bank of Bermuda HSBC
31. Jared Smith, Bank of Bermuda HSBC

Tourism

32. Matthew Harding, Fairmont Resorts

33. Wendell Hollis, Gaming Task Force
34. John Jefferis, Coco Reefs
35. Alexis Roberts, Bermuda Hotel Association
36. Dee Smith, Bermuda Hotel Association
37. Michael Williams, Pink Beach Club
38. British Columbia Tourism Authority
39. Singapore Ministry of Tourism
40. Wholesale travel agent
41. Clarence Hofheins, Newstead Belmont Hills
42. Various hotel developers

Associations

43. Roger Gillett, Insurance Development Council
44. Martin Law, Business Employers' Council
45. Leila Madeiros, Association of Bermuda Insurers and Reinsurers
46. Laurie Orchard, Bermuda Insurance Institute
47. Mark Smith, Insurance Advisory Committee
48. Susan Stirling, Bermuda International Business Association
49. Alan Waring, Bermuda Insurance and Reinsurance Brokers Association
50. Peter Willitts, Bermuda Insurance Management Association
51. Richard Winchell, Association of Bermuda International Companies

Youth Force

52. Shayjuan Bascome, Bermuda College
53. Keivana Burgess, The Berkeley Institute
54. Camille Creary, Bermuda High School for Girls
55. Stahen Dill, graduate of the Mirrors Programme and a member of Youth Parliament
56. Shaloi Duncan, Saltus Grammar School
57. Asha Galloway, Bermuda College
58. Kayla Hollis, Bermuda College
59. Alexa Lightbourne, The Berkeley Institute
60. Coy Millett, Warwick Academy and Youth Tourism Minister
61. Altonio Roberts, CedarBridge Academy
62. Regina Simmons, Adult leader
63. Zion Todd, Bermuda Institute
64. Kascia White, Bermuda Institute

Others

65. Andrew Brimmer
66. Glenn Cohen, Harvard Law School
67. John Cunningham, Firstmark IP

68. Martha Dismont, The Family Centre
 69. Robin Fransman, Holland Financial Centre
 70. The Honourable Grant Gibbons, JP, MP, former Finance Minister
 71. Nick Hutchings, Ocean Projects Limited
 72. Bill Keegan, Martston-Webb
 73. Tony Knap, Bermuda Institute of Ocean Sciences
 74. Tony Langham, Lansons Communications
 75. Buddy Rego, Rego Sotheby
 76. Rich Phillips, Georgia State University
 77. Fred Rueter, CONSAD Research Corporation
 78. Craig Simmons, Bermuda College
 79. Wilbur Steger, CONSAD Research Corporation
 80. Ellen Thrower, St. John's College
 81. Wendy Tucker, Bermuda Underwater Exploration Institute
 82. Victor Webb, Marston-Webb
 83. William Welton, Bermuda Institute of Ocean Sciences
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¹ Gross Domestic Product per capita as of the year 2007, according to Bermuda's national accounts.

² More recently, Bermuda First has expanded, as additional leaders from throughout Bermuda have gotten involved. There are now 23 members of the Steering Committee, rather than the initial 16 members.

³ Department of Statistics. *Bermuda Population Projections 2000-2030*. 2006.

⁴ International Monetary Fund. *World Economic Outlook Database*. April 2009.

⁵ International Monetary Fund. *Bermuda: Assessment of Financial Sector Supervision and Regulation*. October 2008. Page 7.

⁶ Ibid.

⁷ *The Royal Gazette*. October 2, 2009.

⁸ Bermuda Department of Tourism. *Bermuda Visitor Profile*. 2008. .

⁹ Poverty rates would need to be defined and published by the Bermudian government.

¹⁰ There is active debate in Bermuda about how to define the "high-school graduate rate." Government statistics calculate it as "the number of people who graduated from secondary school / the number of people who entered the final year of secondary school." This definition would not account for students who dropped out of school prior to their final year of secondary school.

¹¹ Standard and Poor's. 2006.

¹² Cummins Report. May 2008.

¹³ Ibid.

¹⁴ International Monetary Fund. *Bermuda: Assessment of Financial Sector Supervision and Regulation*. October 2008, p. 11.

¹⁵ Z/Yen, under the auspices of the City of London. *Global Financial Centre Index*. 2008.

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- ¹⁶ U.S. House of Representatives, Press Release: “Leveling the Playing Field: Curbing Tax Havens and Removing Tax Incentives For Shifting Jobs Overseas.” May 4, 2009.
- ¹⁷ Baucus Bill, Discussion Draft. March 12, 2009.
- ¹⁸ Levin Bill, Discussion Draft. March 2, 2009.
- ¹⁹ Willard Taylor, BNA, “Insights and Commentary: H.R. 6969 - Neal Bill on Offshore Reinsurance.”
- ²⁰ According to a report by the Brattle Group, commissioned by ABIR.
- ²¹ OECD Center for Tax and Policy Administration progress report on April 2, 2009.
- ²² As of November 1, 2009
- ²³ OECD Center for Tax and Policy Administration progress report on June 8, 2009.
- ²⁴ Group of Twenty, Leaders Summit, London, press release, April 2, 2009.
- ²⁵ On June 6, 2009 the government of Iceland agreed to reimburse the U.K. government the entire \$3.7B that it had compensated U.K. citizens for this failure.
- ²⁶ Bermuda Department of Tourism. *2008 Visitor Profile*.
- ²⁷ Internal data provided by Bermuda’s Department of Tourism.
- ²⁸ Bermuda National Economic Report 2008.
- ²⁹ Internal data provided by Bermuda’s Department of Tourism.
- ³⁰ Department of Tourism, 2008 Visitor Profile, 2007 Tourist Exit Survey.
- ³¹ Internal data provided by the Bermuda Hotels Association.
- ³² Bermuda Employers’ Council. “The Shift.” June 2008.
- ³³ Las Vegas Tourism Bureau.
- ³⁴ U.S. Government Accountability Office. *Impact of Gambling*. April 2000.
- ³⁵ KPMG 2008 Caribbean Hotel and Condominium Benchmarking Survey.
- ³⁶ Department of Tourism, 2007 Air Arrivals Exit Study.
- ³⁷ A.M. Best
- ³⁸ CapGemini. *World Wealth Report*. 2008.
- ³⁹ Assumes that individuals spend 5% of their assets each year, as seen in CapGemini data for individuals with assets above £1 million; uses same data to determine proportion of spending by category, such as clothing; assumes each dollar of spending has a multiplier effect is 3x, based on an economic model of Bermuda used by Bermuda’s Ministry of Finance; assumes import rates are as in the Ministry’s economic model.
- ⁴⁰ Bermuda Foundation for Insurance Studies (BFIS). “Bermuda scholarships list.” March 2008.
- ⁴¹ Country and state statistics.
- ⁴² See Figure 13.

⁴³ Country and state statistics.

⁴⁴ See Figure 13.

⁴⁵ Interview with Bermuda's Department of Immigration.

⁴⁶ Bermuda Police Service.

⁴⁷ *Royal Gazette*. "Crime beats economy as biggest concern for Islanders in poll survey." May 11, 2009.

⁴⁸ As of June 2009. The compositions of the Steering Committee and Advisory Committee have changed in recent months, to include new members.