

Bermuda Bankers Association  
Cumberland House, 7<sup>th</sup> Floor  
1 Victoria Street, Hamilton HM11

21 March 2019

The Hon. Curtis Dickinson, JP, MP  
Minister of Finance  
Government Administration Building, 2nd Floor  
30 Parliament Street  
Hamilton HM 12  
Bermuda

RE: Bermuda Bankers Association (BBA) – Recommendations for Improving Economic Development in Bermuda.

Dear Curtis,

The BBA again welcomes the opportunity to share its views with you on matters of mutual importance to the Bermuda economy and the Bermuda financial sector. You may recall that we submitted comments and verbally conveyed many of our positions on the tax changes contained Pre-budget Report and we now believe it is both prudent and responsible to share our ideas on improving economic development.

Firstly, we are minded that the recent actions taken by the European Union (EU) with respect to placing Bermuda on the EU non-cooperative list must be addressed in a timely and comprehensive manner that will forestall any damage to our economy and reputation. The BBA stands ready to work with you to address this matter and the BBA's constituent members will continue to work with our many clients in a business as usual manner.

In the 2019-2020 Budget Statement you provided a comprehensive assessment of the current economic conditions in Bermuda and the BBA agrees with many of the areas that you cited as in need of focused attention. The BBA wholeheartedly agrees that Bermuda needs to become a more globally competitive jurisdiction that can compete for investment capital and attract business to locate here, innovate here and conduct material operations from our shores. While the current emphasis on recruiting FinTech firms is a positive development, the establishment of Bermuda as an "all-digital" centre of excellence should also be pursued. With the intellectual talent already committed to Bermuda, this should be a natural extension of many of the digital efforts already underway or contemplated for the near term.

We believe that the core enabler to the pursuit of any approach is a more welcoming posture as it relates to attracting foreign investment and commitment to our value proposition. It is essential that there be a culture of transparency and efficiency in the incorporation and

business set up process with an emphasis on the timely and consistent application of both by government in the day to day handing of inquiries, applications and both statutory and regulatory determinations on matters requiring such actions. The BBA is also mindful that the recently announced tax increases create a potential barrier to economic growth and should be reviewed accordingly prior to final implementation.

A more balanced perspective on immigration and more flexibility in the amount of work permits available and issued to persons wanting to come to Bermuda and directly participate in our economy, would also be a clear and convincing signal of that welcoming posture and would assist greatly in addressing the economic substance concerns that have placed Bermuda at risk of being retained on the EU's finalized non-cooperative list<sup>1</sup>. A long-awaited amendment to relax the 60-40 Rule would also facilitate the formation of more local companies that can hire both Bermudians and work permit holders.

It should be evident that more persons employed in Bermuda would signify tangible economic activity within the jurisdiction and would counter the perception of Bermuda being dominated by exempt company activity that is conducted largely in other jurisdictions. It is clear to anyone looking at the economics involved that a work permit holder is a significant net provider of payroll and other taxes and consumption spending, both of which yield substantial revenue to the government without the corresponding need for long term government services and benefits.

The BBA also believes that the focused and controlled expansion of opportunities for non-Bermudians to invest in local real estate can be of significant assistance to the overall health of the market and provide a pool of risk capital needed to restore and rehabilitate many properties that are slipping into disrepair. While we understand the need to protect the Bermudian ownership base of the local housing market, there is also a critical need for "equity" funding to address properties in declining condition, many of which are also not current in their mortgage obligations and at risk of becoming uninhabitable. By expanding the ability for outside investors to come in and purchase these properties with an agreement to rent them and ultimately resell them to Bermudians<sup>2</sup>; the possibility to address this festering problem could be within our reach.

We note the inclusion of a mortgage rate relief program in the recently delivered Budget speech, however, the BBA believes that the additional use of government guarantees exacerbates an existing fiscal imbalance problem with unfunded liabilities and should be deferred in favor of a private capital solution where both fresh capital and risk transfer options can be put to work to improve the quality of our housing stock and provide options for persons in serious jeopardy of losing their homes.

The BBA would also welcome the creation of legislation enabling real estate mortgage securitization conduits for Bermuda as another means of attracting investors (including local pension fund assets) into the local real estate market and potentially providing a means for fixed rate mortgages to be originated on a regular basis. These conduits could also assist local lenders

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<sup>1</sup> The BBA is cognizant and supportive of efforts to resolve this prior to a final determination by the EU.

<sup>2</sup> There are other potential options (i.e. equity sharing, rent to own) that could be undertaken here.

in managing the credit risk associated with higher loan-to-value and other non-standard mortgages, thus increasing the potential offerings of these type of loans. As stated above, our real estate markets could benefit greatly from an infusion of outside capital that can assist with the more difficult housing asset situations that need to be addressed.

Lastly, the prospect of transformational change to digital asset business is one that all of our members are preparing for and will ultimately adopt when it can both meet their business needs and prove to be a safe and controllable activity consistent with their approved risk appetite. The BBA seeks to engage in the discussions and developments relating to the FinTech solutions being explored in Bermuda and will seek to provide constructive input in areas such as digital ID, asset tokenization and distributed ledger applications that will enhance and improve existing business processes.

The undersigned has been tasked to represent the BBA on these matters and to keep BBA members fully informed on matters where the banks can participate. One BBA member has also advised the Premier that it would be willing to consider investments in bona-fide and BMA approved entities seeking to provide a high quality comprehensive FinTech solution to Bermuda.

The BBA extends an ongoing invitation to you and the members of the Finance Ministry to meet and discuss the recommendations contained herein and to provide further clarification where needed.

In closing, the BBA again appreciates the opportunity to provide the views of its members and while these comments were derived through a consultative process, you may also hear directly from our individual members on these issues.

Kind regards,

*/s/ Thomas O'Rourke*

Thomas O'Rourke, CEO  
Bermuda Bankers Association