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Editor's Note

Global players woefully unprepared for Cyber, BEPS and Europe's General Data Protection Regulations challenges – Bermuda Roundtable

Bermuda's sophisticated insurance market is the third-largest in the world, behind London and New York and the only one besides Switzerland to have been awarded Solvency II equivalency with the EU. These insurance, reinsurance and ILS (insurance linked securities) markets have given gravitas and substance to Bermuda's status as an international financial centre. For example, Bermuda's stock exchange lists over 75% of the world's listed ILS.

Since the global financial crisis of 2008 there has been a major shift in the level of transparency and disclosure for tax purposes and also in the way in which governments assist each other in a global effort to stamp out corruption and tax evasion. Bermuda has been a leader in this field since the last century through its involvement with the OECD and the development of tax information exchange agreements and model terms (FATCA, CRS and now CbC). In this context it is also important to note that Bermuda was not listed as one of the 17 "non-cooperative" tax jurisdictions on the recently released EU blacklist. Bermuda has also seen a renaissance its fund industry after legislation was passed in 2013 allowing exempt funds to be set up and started in just one day (page 10).

Global Game Changers: BEPS and Europe's General Data Protection Regulation (GDPR)

As a result of recent OECD projects (namely BEPS, the Base Erosion and Profit Shifting project), *how businesses hold, maintain and license their intellectual property assets (IP) will have to change* or suffer the consequences of additional taxation or even double taxation. Businesses may have to evidence how the IP is developed or has value added to it in the jurisdiction where it is held in order to avoid this. An unexpected result of this is an increase in interest in establishing new IP heavy businesses in Bermuda where employees can actually create, develop and maintain IP in the jurisdiction thanks to the excellent IT infrastructure and connectivity to the rest of the world. Bermuda has also shown that businesses here can actually innovate in partnership with government and the regulators (page 8-9, 11).

The European Union's General Data Protection Regulation (GDPR) comes into force on May 25th, 2018. This privacy legislation imposes restrictions on international transfers of personal data outside the EU. This means that GDPR needs to be adopted or aligned to by all jurisdictions looking to attract or retain businesses that conduct business in or to the EU. Anyone processing fund subscriptions or doing AML/KYC work for EU clients will definitely be impacted by the European regulation. Along with that, the EU's proposed e-Privacy regulation also holds a number of surprises, potentially implementing highly restrictive rules for which most global players may be woefully unprepared.

> GDPR: Just four letters, but they could cost your business EUR20m – or more. With draconian fines the EU wants to give citizens back control over their personal information. If your company isn't already GDPR - compliant, you need to get going – ensuring the correct procedures are in place can take many months.

The Opalesque 2017 Bermuda Roundtable took place in Hamilton, Bermuda, with:

1. Christopher Eaton, KPMG Islands Group Cyber Lead
2. Marc Weaver, Chief Operating Officer, Centaur Fund Services
3. Neil Glass, Managing Director, WW Management
4. Steven Rees Davies, Partner, Appleby (Bermuda) Limited
5. Brenton Slade, Chief Operating Officer, Horseshoe Group
6. Sean Moran, Head of Business Development, Bermuda Business Development Agency

The group also discussed:

- KYC and AML in 1990 in Bermuda: The overkill which now is a global standard (page 24)
- How is Bermuda affected by the extraterritorial reach of regulations? (page 13)
- How has Bermuda's new "PIPA" data protection legislation put it ahead of the game? (page 13)
- Why no cyber insurance would be paying up for the Equifax data breach (page 15).
- Why is there still so much reticence around cyber insurance? (page 21-23).

- Can Bermuda be a global leader in the development of cyber-related insurance coverage initiatives? (page 15-16)
- How do independent fund directors monitor cybersecurity? (page 19)
- Bermuda as a centre for crypto-assets and ICOs. Opportunities in insuretech and digital identity (page 16-18)
- How can GDPR Article 17 – the right of erasure or the 'right to be forgotten' – work on blockchain technology? (page 19-20)
- What is a Board Apprentice (page 24)?
- Why has Centaur Fund Services chosen Bermuda as its second global hub? (page 12, 25)
- What's the most efficient way to lead innovation? (page 23, 25)
- What does the future hold for Bermuda and other offshore financial centres given the increased competition from midshore or nearshore centers like Singapore and Hong Kong and even some of the U.S. states like Delaware? (page 25)

Enjoy!

Matthias Knab
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Participant Profiles

(LEFT TO RIGHT):

Matthias Knab, Steven Rees Davies, Neil Glass, Sean Moran, Marc Weaver, Christopher Eaton, Brenton Slade

Introduction

Sean Moran
Bermuda Business Development Agency

I am Sean Moran, the Head of Business Development at the Bermuda Business Development Agency. We are an independent public-private partnership, funded by both government and the private sector, that works to promote Bermuda internationally and locally, helps new businesses get set up in Bermuda, and helps existing businesses here grow and flourish. My background includes over 20 years working in banking and hedge fund administration in Bermuda, Hong Kong and New York.

Neil Glass
WW Management Limited

My name is Neil Glass. In 1990, I was sitting in my office in Edmonton, Canada, as an audit manager with EY, when I heard there was a job opportunity in the Bermuda office – no snow, no income taxes, and it was paid in U.S. dollars, so I put my hand up. I was with EY Bermuda until 1994 when I moved to WW Management, where I have been working in the hedge fund space ever since.

WW management was started by a Swiss gentleman named Willy Weber who was an adviser to a lot of high net worth individuals, and in this role, he also sat on several hedge fund boards. Some of us will remember that back in the early 1990s, the hedge fund world was like the Wild West. The investor base was comprised mainly of high net worth investors, and as long they made returns, most didn't really worry about due diligence. Mr. Weber, however, operated under a Swiss set of standards. He regularly met with the investment managers, the auditors and the administrators, and he was a director of several investment funds. In short, he was ahead of his time in board due diligence work. Today, since the majority of fund capital is owned by institutional investors, it is the norm to have proper governance and oversight carried out by independent directors.

Mr. Weber sat on the boards of one of the biggest hedge fund names at the time, who also happened to be an audit client of mine. That is how we got to know each other. The next year, when Mr. Weber moved to Bermuda to set up a fund of funds, the large hedge fund client said, "Great! Can you oversee my Bermuda funds?" So I was hired to oversee the day to day operations of the funds. Several of the large investors in those funds liked what they saw and they asked, "Could you do that for this other fund? And that fund?" That is how I came to manage the day to day operations of several funds, overseeing the work of the administrators, the auditors and legal counsel, as well as being the primary contact for shareholders, and serving as a board member. About five years ago I gave up the day to day oversight role, and now serve solely as an independent fund director.

Steven Rees Davies
Appleby (Bermuda) Limited

Steven Rees Davies, I am a corporate partner at Appleby based in our Bermuda office. My areas of practice include corporate finance and banking, capital markets and IPOs, international and local regulation and intellectual property. My client base is wide and includes businesses that work in almost all sectors from technology to transport, from energy to telecoms and from pharma to finance.

I have been with Appleby since 2008 and before that I worked for two top UK firms. I am also currently focused on developing and growing our global technology and cyber group which advises on data protection, information management, fintech, regtech and insuretech, digital business and e-commerce, Blockchain and intellectual property.

Marc Weaver
Centaur Fund Services

My name is Marc Weaver, I am the COO of Centaur Fund Services (Bermuda) Limited. Centaur Fund Services is a global alternative funds administrator which was founded in Dublin, Ireland in 2009. The three founders, all of whom have been based in Bermuda at some point in their career, started the firm with a handful of clients and have grown the global business to over 85 people globally with over 40 clients and approximately $18 billion in assets under administration.

We were able to launch the Bermuda office of Centaur with a large client based in the United States that wanted to have an operating service model with extended hours of coverage. Bermuda was a natural fit considering their understanding of the jurisdiction and the strong regulatory regime provided by the BMA.

That was the initial catalyst but since then we have grown at a very fast pace servicing complex hedge fund & private equity clients from Bermuda while also launching our ILS administration offering.

Christopher Eaton
KPMG Islands Group

My name is Chris Eaton, I'm a Cyber Security Lead for the KPMG Island's Group, which has offices throughout the region. I am based in Bermuda and first moved here in 1996.

I've been with KPMG in Bermuda for three years, and have been working with information security since 2001. An interesting fact is that KPMG was recently recognized for a second time by Forrester Research as the leader in Information Security Consulting Services and has over 1,950 cyber professionals globally, providing cyber, privacy and business resilience services.

Brenton Slade
Horseshoe Group

My name is Brenton Slade. I'm the Chief Operating Officer of the Horseshoe Group, an insurance and fund administrator with a specific focus on the ILS market. I have been in Bermuda now for 18 years.

I first came to the island in an asset management capacity and was hired by a hedge fund within the Berkshire Hathaway family that had a significant presence on the island. In addition to the management of the funds, we made an increasing number of principal investments in the insurance and reinsurance space and actually grew that business to the point of starting our own rated reinsurance company in 2005, that continued to grow and went public in 2007. I was a principal there until the end of 2012 when we were purchased by another reinsurer on the island. I took a couple of years to do some interesting projects and then joined Horseshoe Group as the COO three years ago.

The Horseshoe Group is the largest independent administrator and manager of ILS-specific assets in the market. We are a non-traditional insurance and reinsurance manager. Approximately one year ago, we acquired a fund administrator that manages hedge funds, private equity funds, and increasingly ILS-focused funds, and have continued to grow that business as well. Currently the group has $24 billion of assets overall and 85 people in five offices globally.

Matthias Knab Brenton, let's stick with and your firm for a moment because what you told us about your background and the companies you worked with is really an impressive growth story. Can you give us more colour and details about how ILS has developed here in Bermuda, where it is now and where you see it heading?

Brenton Slade: Yes correct, my experience and background over the last number of years has been more specific to the ILS space, and this segment has been a shining star within the reinsurance market and in particular the development of Bermuda as a marketplace. ILS has really been an innovative segment of a wider business, reinsurance, which tends to be more traditional in mind-set.

To understand the growth of ILS, it's also helpful to understand the historic development of Bermuda's reinsurance marketplace because importantly, **Bermuda actually has all the risk-bearing entities and real industry professionals on the ground, which is the foundation of an actual marketplace.** Add in *common-sense, but effective jurisdictional regulation,* and very quickly a quality, vibrant marketplace developed, and as a whole, the reinsurance business was able to grow on the back of that.

In 2005 we saw significant catastrophic events occur - Hurricanes Katrina, Rita, and Wilma - that caused a massive capacity shortfall, predominantly in the property catastrophe reinsurance markets. To fill that shortfall, a large amount of capital poured into Bermuda almost overnight, somewhere between $18 billion to $28 billion dollars, and most of that capital was used to set up new reinsurance companies.

As those companies grew and flourished, in addition to benign loss years, rate levels gradually softened and the reinsurers looked at other ways to supplement earnings without necessarily bearing the risk on their own balance sheets. Underwriting on behalf of third-party capital and generating fee income became very attractive. And so, *this marked the acceleration of the ILS market.* With that, the underlying securities then grew and proliferated as well, starting off with cat-bonds and sidecars, then moving into traded and collateralized reinsurance.

I would say that when it comes to innovation, the traditional reinsurance market itself has not changed significantly over a number of years, but the ILS markets certainly have. Currently, the ILS markets have grown to comprise around $80 billion of the roughly $400 billion reinsurance industry. What is happening now is that the **traditional reinsurers have to react to the growth of the ILS managers.** And so, you could say that ILS has been disruptive in a sense, provoking changes in the wider market. But certainly the traditional reinsurers need to continue to adapt. Change in that industry is somewhat slow, but that change is accelerating as the ILS share of the market is gaining traction at the expense of the traditional aspect of the market.

Matthias Knab So, the traditional reinsurers need to adapt to market changes brought about by ILS. Could you please tell us more how and why is this happening?

Brenton Slade: I think that there are several reasons. I think first of all, when it comes to insurance and reinsurance, the regulatory burden is only increasing, and this is really a global theme and not just a jurisdictional perspective as it relates to the way in which traditional reinsurance companies run and manage themselves. So no matter your size, if you are rated and publicly traded, you have certain constituencies that you need to report to and manage your business according to their frameworks, such as the various ratings agencies as well as regulators.

Most mature companies have multiple credit ratings, be it AM Best or S&P; even Fitch and Moody's now, and you manage according to their frameworks. Then if you issue any debt, you manage that debt according to their debt monitoring services. Additionally, if you are in different jurisdictions, you have different regulators. If you are publicly traded, you have the SEC and the NYSE regulatory environment. Next are then all the jurisdictional-specific applications of regulation where you need to deal with items such as AML, KYC, FATCA. With that number of external regulatory frameworks, it's burdensome to manage a business and very expensive to have the necessary people and the systems to be able to manage that in a robust fashion.

On the other hand, you have the ILS market. If you focus on non-affiliated, independent ILS funds that have become quite successful, they are regulated by the jurisdictional regulator of course, but they are not rated, nor are they public, nor do they have any rated debt in their capital structure. Their regulatory burden is lighter than a traditional reinsurance company, so their **expense ratio** tends to be much lower while at the same time they can be more nimble in how they manage and adapt their business. This gives them quite a bit of an advantage when it comes to writing and pricing business when competing with the traditional reinsurers.

Steven Rees Davies: I think it is also worth noting that even before the growth of the ILS market, which is really very much a recent development when you look at Bermuda's longer term growth as an international financial centre, other industry sectors were already benefitting from Bermuda's flexible yet robust corporate and regulatory environment.

Many of our clients have been in Bermuda for decades, benefitting from the commercial neutrality that Bermuda has offered for many years. Businesses have been structuring themselves to align with and benefit from the globalization of their markets. Intellectual property is a prime example of an area that businesses in the pharmaceutical and technology sectors have been able to centralize and protect in jurisdictions like Bermuda.

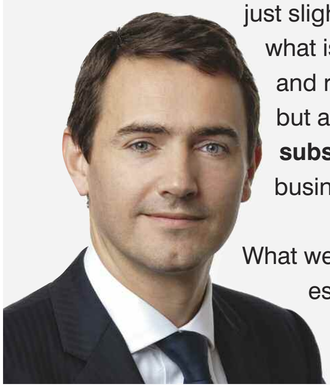
However, it has been the insurance, reinsurance and ILS market that has given additional gravitas and substance to Bermuda's status as an international financial centre. These are businesses that have management, operations and physical presence here and employ a substantial, qualified force work. With that comes the need for sophisticated and experienced professional advisers and service providers. This includes lawyers, accountants and other advisory firms and fiduciary service companies. These businesses would not be here on the scale they are if the demand for their professional services was also not present. When combined with the industry sectors themselves that exist in Bermuda, you come to realise how large and sophisticated the Bermuda market place actually is.

In line with Brent's comments, there has been an ever increasing level of regulation which is becoming more and more burdensome on businesses around the world. As an example, since the global financial crisis of 2008 there has been a major shift in the level of transparency and disclosure for tax purposes and also in the way in which governments assist each other in a global effort to stamp out corruption and tax evasion. Bermuda has been a leader in this field since the last century through its involvement with the OECD and the development of tax information exchange agreements and model terms. With this has come a huge additional regulatory burden for all businesses in all jurisdictions to implement measures to comply with the likes of FATCA, CRS and now CbC. This is not unique to Bermuda, but Bermuda has implemented international standards in a manner which allows businesses to efficiently operate without reducing the legal effect.

And in some instances, the burden itself creates new markets that were not necessarily contemplated. A good example is the area of **intellectual property** (IP). Historically, many international conglomerates centralised their ownership of IP for a number of reasons in a Bermuda vehicle. Benefits would include the ability to protect the asset from the legal and solvency risks of operating companies, the ability to reduce cost in maintenance of IP portfolios and the tax neutrality meant that there was no additional layer of tax added just because a new vehicle had been inserted into the group. This structure also allowed for a more cost effective and efficient method of licensing rights around the group. As a result of recent OECD projects (namely BEPS, the Base Erosion and Profit Shifting project) how businesses hold, maintain and license IP is going to have to change or suffer the consequences of additional taxation or even double taxation. One of the proposals is that income derived from IP that is passively held in a centralized subsidiary vehicle may be subject to taxation in the parent jurisdiction. Businesses may have to evidence how the IP is developed or has value added to it in the jurisdiction where it is held in order to avoid this. An unexpected result of this is an increase in interest in establishing new IP heavy businesses in Bermuda where employees can actually create, develop and maintain IP in the jurisdiction thanks to the excellent IT infrastructure and connectivity to the rest of the world.

Matthias Knab When talking about regulation and international frameworks, let me also add here that Bermuda was NOT included on the recently released EU blacklist. Regarding intellectual property, I wonder how much of these regulations affecting IP are already passed and active versus just being in a draft phase?

Steven Rees Davies: The OECD has been working on the BEPS project for a number of years now and we have already seen the legal implementation of certain parts, including tax transparency and automatic exchange of data between authorities, in many participating countries, including Bermuda. I understand that other aspects of the BEPS project are yet to come online or be fully implemented, but these proposals are no longer just proposals, they are expected to be part of the internationally recognised standards governing how multi-jurisdictional businesses conduct and structure their global affairs very soon. Transfer pricing, country by country reporting, permanent establishment, treatment of IP and treaty shopping are all matters that have been considered and debated in great detail. Many existing structures are going to have to be restructured, others just slightly tweaked. Bermuda is already at the forefront of implementing these international standards, but what is most exciting is that we now have an opportunity for Bermuda to develop an appropriate legal and regulatory environment that not only meets and complies with all of the new international standards but attracts businesses who are seeking to conduct business in a different way. We already have **substance** on the island and these new proposals only go further to bolster that type of international business.

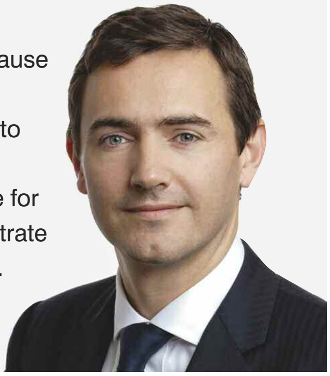


What we are already seeing is a growing interest from all tech sectors in how international businesses can establish new ventures in Bermuda where the IP is to be created and developed here.

Sean Moran: These new regulations are actually playing to our strengths.

Steven Rees Davies: Right. And that I think is one of the biggest positives Bermuda has always had. Living and working here, one of the things I have always appreciated about Bermuda is that it puts quality and reputation as a priority. Bermuda cares about its reputation, and if you are a business that cares about its reputation as well, you will be well aligned with Bermuda.

This reputation has proved to be one of Bermuda's greatest assets in the long term. *We have clients who openly declare that they wish to move their offshore structures to Bermuda due to its international reputation.* Often there is nothing wrong or negative about where they currently reside; their board of directors has simply said they want to operate in the jurisdiction with the cleanest and most highly regarded reputation. Brand and reputation is sometimes a business's greatest asset, and as such, companies who have always complied with international regulation and legislation are now seeking to be as much seen to be in the right place as doing the right thing.



This has not always been the case. Bermuda has historically lost business to other jurisdictions because of its introduction of new regulations or laws that were then seen as too burdensome. Cayman benefitted from this from a funds industry perspective and despite the changes we have introduced to make Bermuda more competitive in that sector, many people, particularly in the US, just follow the structure that was used the last time and as such it is difficult to turn that around. However, this care for our reputation as a jurisdiction is proving to have paid off now that all jurisdictions are having to illustrate how well they can comply with ever changing and increasingly burdensome international standards.

Sean Moran: Just circling back for a moment to ILS and reinsurance, Brent had mentioned the quality of the regulation and the general positive view and outlook of that particular industry.

Very relevant in this respect is of course the Bermuda Monetary Authority (the BMA), our financial services regulator, that oversees the entire insurance and reinsurance industry here on the island and has helped us achieve our **Solvency II equivalency** with the E.U. This has been very positive not just from the perspective of the insurance and reinsurance industry but generally as a stamp of approval for the jurisdiction. When we talk about why Bermuda is different from other international financial centres, an important part of the story is that the BMA has been recognised and accredited for its supervision of our **sophisticated insurance market, which is the second-largest hub in the world, behind London.** Bermuda is the only country outside of the E.U., besides Switzerland, to have been awarded Solvency II. I think it's really important to mention that.

We also have the Bermuda Stock Exchange (the BSX), which is a fully electronic stock exchange here on the island, on which many alternative risk management vehicles, including catastrophe bonds, sidecars and ILS fund structures often list. As per the last numbers I looked at, the *BSX had about $22 billion in listed ILS on its exchange, which is more than 75% of the world's total value,* which is another demonstration of Bermuda's leadership and quality offering in that space.

When you look at the most popular types of ILS structures – catastrophe bonds or cat-bonds, sidecars, and collateralized reinsurance – I think it's important to note, especially in the context of the annual ILS Convergence conference we had here in Bermuda, that there are new types of structures and new types of deals being developed now by the same thinkers and the same subject matter experts that were really were here from the outset of this industry.

We refer to this sector using the term “Convergence” because it is actually the **coming-together of the asset management and the re/insurance sectors.** This is really what ILS represents: a hybrid of these two businesses where managers are creating avenues to access global insurance markets and packaging risk in a way that it is securitized and investible. ILS as an asset class is attractive to investors because it offers uncorrelated returns in structures that are familiar, especially if they are investors in traditional hedge funds.

ILS structures also utilise the same **service providers** that service the alternative fund space, and the quality of those service providers is a point worth reinforcing. The Convergence sector, with its diverse range of insurance-linked securities, requires specialist skills. As Bermuda has developed its leadership in this space, the administrators, the law firms, the audit firms and other supporting players have built on the solid foundation of their investment funds businesses to offer services to ILS managers and their investors. They understand the strategy, they understand the structures, and they have been working very well together for many years. The fact that our service provider environment has always been so strong is a vital aspect which I believe sets Bermuda apart for asset managers and fund operators.

Neil Glass: Steve mentioned the fund industry and how it’s predominantly based in Cayman now. When I came in the early 1990s, Bermuda was the herd watering hole for the fund industry. If you were setting up an offshore fund, you automatically came to Bermuda. You didn’t know why, that was just where you went.

As Steve alluded to, at the time, the Bermuda regulator added a lot of requirements that funds had to meet to operate from Bermuda. At the same time, with all the exciting things that were happening in the risk industry, the government took its eye off the funds industry, while it was focusing on the golden goose called reinsurance. By the mid-1990s, the fund industry basically moved from Bermuda to the BVI, and by the end of the 1990s, it had moved on to Cayman, which has been the domicile of choice ever since.

The main reason that the other jurisdictions became more popular was that Bermuda had become too bureaucratic. One needed a Bermuda audit sign-off on funds, and a Bermuda-incorporated management company was also required. There were several further regulatory requirements which the market did not want at the time. Remember, most of the investors were high net worth individuals; there weren’t a lot of institutional investors. They didn’t see the value added by the new regulations, so Bermuda no longer was the place where most new funds were set up.

That was why in 2013, several of the fund professionals who had worked in the Bermuda fund industry during its glory days, agreed with the government that it was time to **re-focus on the fund industry.** That was the renaissance of Bermuda’s fund industry. The resulting legislation passed in 2013 set up exempt funds, which enabled funds to self-certify *you submitted your fund information to the Bermuda Monetary Authority, and on the same day, you could start your fund.*

The fund had to meet certain requirements, such as the investment manager had to be registered by the SEC or some other regulator that the BMA recognised and the offering had to be directed at qualified investors only. This was a total sea change in the way Bermuda looked at things. We were saying, “Listen, we understand that there are those of you that don’t want any added regulations. We are now offering exempt Class A or Class B funds.” But at the same time, we recognised that some investors prefer regulatory oversight. Thus, we kept some of the more regulated structures for those who do not want to be exempt from additional oversight.

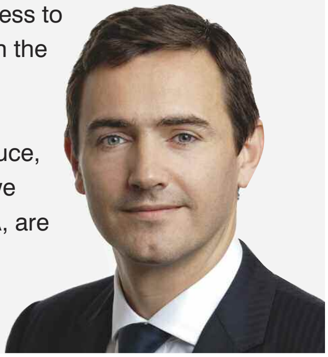
Matthias Knab How have those two domains, the regulated and then the exempt funds, developed since 2013?

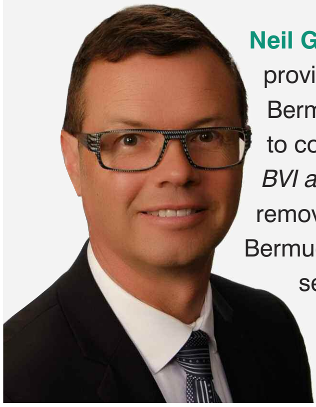
Neil Glass: I think that more and more people are going the exempt route just because it's so much simpler, and why regulate if you are addressing only qualified investors and the manager is already supervised by a recognised overseas regulator?

Although, some investors, often from Europe, do like the extra assurance that's given by being more regulated. Overall, the trend is definitely from more regulated funds to the less regulated.

Steven Rees Davies: What you had been describing, Neil, is a perfect example of what I like to regard as location innovation. One of the biggest benefits I find in Bermuda as a legal practitioner is that *the businesses can actually innovate with government and with the regulators.* And that was a perfect example. The people in the industries were saying, "Look, we need to change the way we administer or regulate this sector. If you want any more business to come back or to increase and grow, you need to change." And they listened. We have the people on the ground actually helping government to advise, draft, and innovate.

I made a note here that we are small enough for participants to be involved with legislators to introduce, adapt, and innovate law and regulation. We are therefore nimble as a jurisdiction, and the fact that we also have very experienced workforces and leadership and a highly-regarded regulator like the BMA, are all elements of why people like to work with us as a jurisdiction.



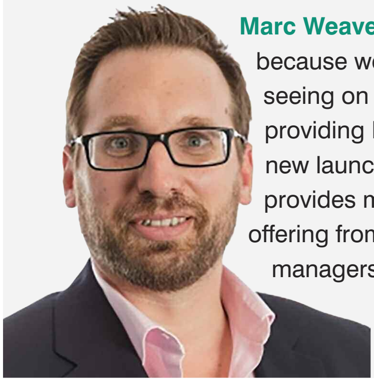


Neil Glass: Once the regulations were lightened, Bermuda found this is actually good for the service providers. For example, when the window was opened and Bermuda funds could be audited by non-Bermudian auditors, the industry here was first frightened about the potential loss of business. They had to compete - that's how a market-based economy runs most efficiently. *Now there are a lot of Cayman, BVI and U.S. limited partnership funds that are audited and administered from Bermuda.* So ironically, the removal of the requirement that Bermuda funds are signed off by Bermuda auditors, has helped the Bermuda audit industry thrive. The service providers have to be nimble and they have to provide good service, and because of that, they are now getting work from distant jurisdictions.

Marc Weaver: I agree with your comments. Investors in the ILS space expect to see a third-party administrator when they invest in such a fund.

So, we as the administrator, must ensure that we are aware of all aspects and nuances of the ILS product to ensure the investors are confident with the administration of the ILS structure as they would have seen typically with other alternative investment funds, such as hedge and private equity funds. A key element of this is a precise understanding of the accounting, structure and investor requirements behind each product. In Bermuda we have an excellent **local talent base** and an almost ideal operating environment for this type of work with the administrators and ILS managers located in such a small distance from each other.

Matthias Knab From your perspective, how have you seen the fund industry grow here in Bermuda?



Marc Weaver: Quite well, actually. When Centaur opened an operation in Bermuda last year, it wasn't because we were completely focused on ILS only; we had other fund types to service. However, we are seeing on a day to day basis there is interest from ILS managers as they have more options with Centaur providing ILS administration services. We believe the fact that the ILS market is growing with additional new launches from existing reinsurers and another service provider is healthy for the industry as it provides more options to ILS managers and ensures the evolution of the product while enhancing the offering from the administrators in Bermuda. We are discussing new launches and existing funds with managers to see if any ILS fund manager is looking for another alternate administration company.

Christopher Eaton: I'd like to refer back to Steve's observation about increased regulation since 2008 and tie it into an observation about the skills and collective expertise that we have here in Bermuda. Having been involved to a limited extent with the Bermuda response to the recent Automatic Exchange of Information (AEOI) tax initiative, I witnessed how the industry and government stakeholders in Bermuda reacted, consulted and came together to put into place a solution that enabled FATCA and CRS reporting to take place in a timely manner.

Implementing a solution that enabled Bermuda financial institutions to file their AEOI reporting on time may not sound overly impressive, but it was a significant challenge for many jurisdictions. In my view Bermuda turned this challenge into an opportunity to showcase jurisdictional competency and advantage. It takes a broad community of people with very different attributes to be able to contribute, respond and collectively deliver to these global regulatory initiatives.

Regulatory-driven operational and technology change has been a major theme in the offshore world for many years. Regulation associated with Anti-Money Laundering, Anti-Terrorist Funding, Know Your Customer and Automated Exchange of Information have all represented significant challenges. The term 'RegTech' may be relatively new, but the requirements are not.

We are now seeing regulation with **extra-territorial reach** effecting operations in Bermuda. For example the New York State Department of Financial Services (DFS) introduced 23 NYCRR500 late last year which sets out some specific cybersecurity requirements for licensed entities. As this includes most banks, financial services entities and insurance entities licensed by the state, subject to certain exemptions, a number of Bermuda companies are in scope and have had to respond accordingly.

DFS-500 is quite demanding and requires the development of strong cybersecurity programs and implementation of specific security controls, policies and procedures to protect information.

And I think the response to that new requirement is, once again, an illustration of where Bermuda can potentially accrue **competitive advantage** because it demonstrates the substance and capability within the jurisdiction. It's the substance of Bermuda that makes the difference in many respects. Collectively, we do an increasingly better job of communicating and articulating that as a community, and it's important we continue to do so.

Important as it is to those who are caught, DFS-500 has a very specific and limited application within Bermuda. For the widest applicability and the broadest impact, the big thing that we're going to see from a regulatory technology perspective over the next few years relates to privacy.

The European Union introduced the **General Data Protection Regulation (GDPR)** in April 2016, and it comes into force on May 25, 2018. In a similar vein, Bermuda introduced the Personal Information Protection Act (PIPA) in July 2016, which will come into force in late 2018.

By default, the European GDPR legislation imposes restrictions on international transfers of personally identifiable information (PII) outside the EU. So, for example, if you are a processor of European PII in Bermuda - perhaps you are processing fund subscriptions or doing AML/KYC work - then you will definitely be impacted by the European regulation.

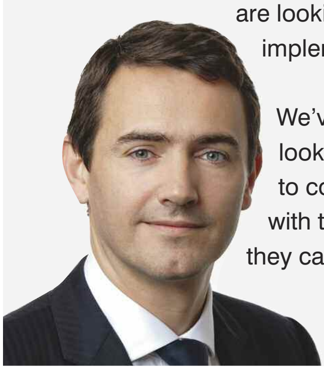
There is a concept of 'Adequacy' within European privacy regulation that enables international transfers at a country level and that is perhaps the optimal solution as it places reliance on "essentially equivalent" local data protection. The Bermuda PIPA legislation was drafted with an adequacy application in mind, but it remains to be seen whether it will be successful, given the pending introduction of a higher European standard.

Until an adequacy decision is secured, companies in Bermuda will have to fall back on other provisions including standard contract clauses and binding corporate rules that enable those international transfers of personal data and those arrangements will include the requirement for adequate safeguards for protection. Helping clients understand what that means to them is a key part of what we do.

So it's really encouraging to see that Bermuda does have privacy legislation out there. It is another example of our nimble approach to regulation contributing towards jurisdictional advantage.

Essentially, I think regulation never stops and whatever the original source, it will continue to have a big impact on the operations of organisations in Bermuda. And actually, for substantive jurisdictions, regulatory change represents an opportunity to show what a great job we can do to meet the challenges of those changing requirements.

Steven Rees Davies: You're absolutely right, Chris, PIPA is a good example of where Bermuda is ahead of the game. We're working on data protection and privacy from both a global and a regional perspective when advising international clients who are looking to ensure their global approach to compliance meets and aligns with the local regulations implemented in each jurisdiction where you have a presence.



We've got the GDPR in Europe which is going to need to be adopted or aligned to by all jurisdictions looking to attract or retain businesses that conduct business in or to the EU. If someone currently looks to comply with PIPA in advance of its introduction, they will be well positioned to prepare and comply with the GDPR. What we are focused on is ensuring clients are aware of the PIPA obligations and how they can align preparation for compliance with the wider GDPR implications.

Christopher Eaton: That is a great point. The two – GDPR and PIPA – are similar, but not the same.

After the appointment of the commissioner in Bermuda, industry guidance will be issued and that will provide the details relating to operational implementation of PIPA.

Another area to monitor is the **new EU e-Privacy Regulation**, which is currently under consideration in Europe. GDPR, as we've been discussing, will certainly have a massive impact on the way we interact with the rest of the world through the means of communication typically used in today's business environment. But the new proposed e-Privacy regulation will basically extend the application of the current regulation from traditional telecommunication operators to the providers of newer services, including messaging services over the Internet for example. It will also affect businesses that provide online behavioural advertising and internal tracking services.

It will be very interesting to see how it impacts businesses using Internet-tracking cookies for example to monitor and profile people and whether they will be able to continue to do so moving forward without explicit consent.

That is all still in discussion at present, and there was a proposed timeline to harmonise the introduction of this to fall into line with when the GDPR comes into play in May 2018. Whether that is an achievable timetable remains to be seen. So this is a very current and active area of development in Europe at present and something to keep an eye on.

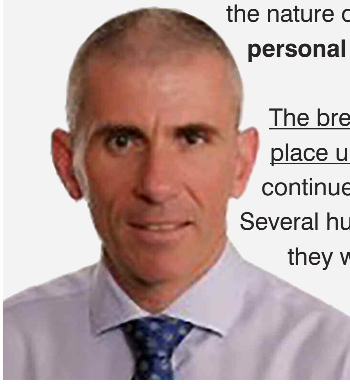
Matthias Knab Chris, where are we when it comes to the cyber themes particularly within the financial industry?

Christopher Eaton: My colleague Bill Miller, who leads our actuarial practice, and I have had a number of conversations recently around cyber risk. Actuaries like their models, and, of course, we don't have a lot of historical data on cyber claim history. Something that is exacerbated by the related coverages that might come into play to cloud the picture. Much of the data that has been captured may also be lacking the final outcomes of directors and officers and regulatory actions which tend to take a while to resolve.

And so, we're talking internally a lot at the moment around the relative merits of common-sense cyber policy exclusions on one side and more technical solutions, including analytics, on the other. For example, is it viable to deploy technology on the insured side that will roll up to the insurer and potentially even to the reinsurer to provide an aggregated and current view of risk to make more informed decisions around underwriting? Or, should you introduce an exclusion due to failure to apply a critical security patch in a timely manner? Those are two ends of the spectrum.

Considering the merits of exclusions, there are some benefits that might occur to the preservation of confidentiality of personal data generally if insurers did take a common approach. Unfortunately, it is the case that there are some common themes and root causes in major cyber breach events that are avoidable.

The Equifax breach was recently very big news. It was one of the most unfortunate in history because of both the volume and the nature of the data involved, and it does serve to highlight some of the risks associated with the way **personal consumer data** is routinely shared and disseminated by many financial institutions.



The breach revealed the details of over 145-million records, and disclosure of the breach did not take place until six weeks after discovery. The consequences of that breach to Equifax were and are likely to continue to be significant, and if this had happened in a year's time, they might have been even worse. Several hundred thousand EU records were breached and because of the context and the circumstances, they would be looking at a significant fine had this happened after May 25, 2018, I would suggest.

Steven Rees Davies: Based on GDPR is what you're saying?

Christopher Eaton: Based on GDPR, yes and the 72-hour breach notification requirement compared to the 40 days that actually elapsed.

It is also on record that Equifax did not patch a security flaw with an update that was released in March, leading to the exploitation of that vulnerability in May which is a segue back to policy exclusions and our debate. As security specialists, part of our responsibility is to communicate how important these few key exclusions could be and to make those conclusions accessible to those evaluating risk.

In general terms, security specialists, often need to turn to metaphors to illustrate a point. For example, if you were unfortunate enough to have a fire in your house and experienced a total loss, you might expect to have some challenges settling your claim if you were storing barrels of petroleum inside at the time! That is generally accepted and there are similar examples in our world.

The issue of systemic risk in cyber coverage does not simply go away, but not observing fundamental good **'cyber hygiene' practices** could and probably should become generally accepted, self-evident exclusions. So those are sorts of things that we're talking about.

Sean Moran: Do you feel that Bermuda as a jurisdiction is leading some of the development of these new cyber-related insurance coverage initiatives?

Christopher Eaton: That's a very interesting question. Firstly, I'm not an insurance person, I'm a technologist to be clear! That said, it is encouraging to see the BDA cyber captive group getting together with the healthcare captive group to absorb the lessons-learned on how they have achieved success. Seeing those talented people come together to think innovatively around how they can reach their target markets and innovate in that space, is really something. It does appear that Bermuda has an opportunity to establish itself in that area. And again, I think that comes back to having tremendous expertise in captives in general in Bermuda and bringing that to bear to the specifics of cyber. With that great record of innovation in captives and access to the required technical competencies I think a case can be made that Bermuda could become the **go-to place to establish a cyber captive.**

Steven Rees Davies: As someone who works in the regulatory environment, I agree that one of the benefits of Bermuda is that – because we care about our reputation – we really look at and take these international standards and can get them into effect here quite rapidly, while at the same time making sure what we implement is not overly onerous. In effect, we can often achieve a balance whereby the international standards are met but without causing anything more onerous than would be implemented anywhere else. We have the benefit of sophisticated and talented individuals in both our government and our regulatory authorities which means that Bermuda looks through the base text of any proposed international standard and seeks to understand and apply the true purpose and objective of the proposals whilst seeking ways in which to enhance it and make Bermuda's environment even more attractive.

The latest example of how Bermuda can approach things differently is the **crypto-currency space** and how different parts of existing regulation and legislation may affect its development in Bermuda in both a positive and a negative way.

It is great to see government and regulators show an understanding of how regulation and legislation is different for fund-raising through an **initial coin/token offering** as against the development of underlying technologies (like blockchain) and the operations of a cryptocurrency exchange or even trading in cryptocurrencies. These types of questions are still being contemplated by onshore governments due to the complexity of their existing regulatory framework, whereas in Bermuda, thanks to our efficient and effective legislative and regulatory framework we will have an easier time in adapting to accommodate such new concepts and create a regulatory environment that attracts and promotes innovation and development in that and other spaces.

I think we are in a unique position, particularly, with our existing government that is standing out as a very tech-friendly government and interested in how we can develop these sectors in Bermuda, whether it be from our own regulatory perspective and how are we are going to deal with cryptocurrencies in Bermuda or how do we want to see businesses dealing with those asset classes from Bermuda.

If we get the regulatory environment right, we should see an influx of business looking to develop new technology and business on the island. I already have a portfolio of clients seeking advice on existing and likely regulatory implications for bringing their new business to Bermuda. They want to be able to develop IP in Bermuda in order to comply with the BEPS project whilst also taking advantage of a positive and innovative jurisdiction with legal and tax neutrality.

Sean Moran: You're right that our government is definitely going to be a very interested in focusing on technology and particularly, fintech-related opportunities for Bermuda as they take their administration forward. Our Premier has a technology background, and he is very interested in where this industry is going. And on a recent trip to New York, he was talking with a number of international investors, as well as existing customers who have used or are currently using the BDA's Concierge service, and he asked many of them where they thought the opportunities are for Bermuda in the future. He wanted to hear from some of our international stakeholders. The feedback was unanimous that Bermuda has a great opportunity to become a leader in the quickly growing technology sector for a number of reasons.

One is, our positioning in the North Atlantic, between Europe and North America. Bermuda's situation makes us such a great, central location for transatlantic business. This has always been an advantage for our international business sector generally, but also the fact that we're connected by fibre optic cables to both sides of the Atlantic allows us to boast a technical infrastructure that other small islands just don't have. This bandwidth is, of course, critical if we are to host more tech companies and be a **centre for crypto-assets and ICOs** in the future.

And we actually do have tech startup businesses coming here, establishing operations here and licensing their IP here; as Steve was saying, we are seeing growth there. A recent example was a group called Hub Culture, a Bermuda-incorporated social media company with its own digital currency. Hub Culture set up an innovation campus at the Ariel Sands property this summer where it hosted blockchain seminars, ethical hackathons, demonstrated virtual reality technology, and introduced young Bermudian students and entrepreneurs to new ideas that are going to shape the digital economy of tomorrow. Leading programmers, software developers and tech minds from the likes of MIT and CalTech visited the campus to give educational sessions, talks and to network. Our Premier, fresh off his election win in July, attended the blockchain keynote luncheon and told those in attendance that, if they wanted to stay and write code in Bermuda all year long, they'd be welcome to do so!

There's definitely an interest and a buzz, and again, just to touch on what Steve asked - "Where is Bermuda's sweet spot in this big industry?"- this will be something we will be working to answer. It will be a collaborative effort led by the BDA together with our government, the BMA, and our partners from the private sector to fine-tune an offering that makes sense for Bermuda.

There are couple of things that are being discussed. **InsurTech** is a natural fit for Bermuda because of our strength in insurance, specifically the application of blockchain technology to support the annual renewals of insurance contracts. The industry here is exploring how smart contracts can be implemented and there is a very strong working group dedicated to this.

Another possibility is Bermuda becoming a hub for **digital identity.** The idea of KYC information being housed on the blockchain and Bermuda being a hub for the storage and management of that data for international business clients globally, is something that is being discussed. I think it's something that, again, plays to our strengths and our reputation as a transparent international financial centre that complies with the highest international standards.

Those are some of the things that I know are being discussed and considered going forward. But I think, just going back to where I started, that there's definitely going to be appetite by our government to move forward on these initiatives. There is a working group that has been created, spearheaded by the Ministry of Finance, that is going to be looking more into the cryptocurrency and blockchain spaces and in particular how our regulatory framework and our banking services can be adapted to service this industry going forward.

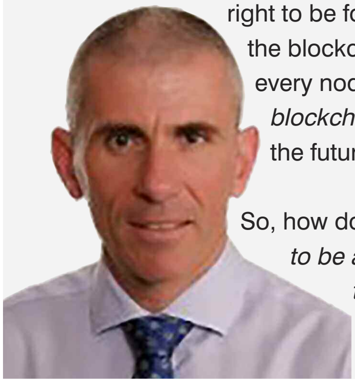
Neil Glass: As I mentioned, I am an independent director of funds, and what I can share is that a recurring agenda item for the last several years has been **cybersecurity**, questions such as *"What are the administrator's cyber policies and procedures, have there been any breaches?"* The concern continues to grow, so this has become one of the things that keeps me up at night, because as a director, I worry whether the administrators, investment managers, law firms and auditors all have appropriate cyber controls. I am also concerned that with all the new country to country reporting standards, sensitive information that is passed to the government will be another potential place for breach by hackers.

I also hear more and more funds contemplating having the **subscription documents, including all the KYC, done through some sort of blockchain** technology. This would mean, for instance, that a fund holder who wanted to make an additional investment would not have to resubmit all the information that has been collected already. So, Chris, can you tell me more what is happening in these areas, and whether you share my concern?

Christopher Eaton: One of the central tenets of GDPR is Article 17, the right of erasure or the **'right to be forgotten'.** Basically, that sets out the premise that the data subject has the right to irrevocably erase their personal data.

So, that's a core principle of GDPR, but it is the polar opposite of what blockchain is all about, which is immutability, inalterability and permanence. There is much debate and legal back and forth, about how those two things reconcile, or if they can be reconciled.

There is certainly a point of view that says if you are giving consideration to the application of blockchain today, the one thing you should look out for and which should give you significant pause for thought is the presence of personally identifiable information contained and stored within the blockchain. Because, what happens when a data subject decides to exercise their right to be forgotten under GDPR and instructs the data controller to delete their personal information from the blockchain? That would represent quite a challenge given that it would have to erased from each and every node of the network and might require something new and different. Perhaps an *editable blockchain?* Or, some variant of an *encryption key destruction process* that regulators might approve in the future.



So, how does that translate to your KYC question? *Blockchain is not the only technology that can be used to be a support a secure central repository of KYC, it just happens to be the one we're talking about at the moment.* Fortunately, there are other options.

Neil Glass: If a client agrees that a subscription document they are providing is going to be a permanent record, do you just need their consent and you'll be able to use the blockchain technology?

Christopher Eaton: One for the lawyers, but, unfortunately and depending on what is contained in that document, probably not. Your client may agree today, but they may change their mind tomorrow. It's their right for that information to be permanently deleted at any time in the future. So consent may need to be secured for processing, particularly if sensitive PII is involved. But, if at some point in the future they wish to have that personal data rectified, deleted or moved, then your solution needs to be able to do that.

There has been lots of investment in blockchain and it can be a fantastic technology solution. It has got lots of great applicability and the 'smart contract' is certainly one. Bermuda has actually made some headway with smart contracts in the reinsurance space which is very much to our credit. The value of, for example, not reentering all of the risk information everywhere down the line for every actor in the insurance supply chain is a great example of a more frictionless, commercial transaction. It makes perfect sense. But if you are thinking about PII in the blockchain right now, it would be wise to take some really good legal advice around the long-term implications.

Steven Rees Davies: There is definitively a major question surrounding the GDPR and PIPA when it comes to blockchain technology, because the regulations require the ability to either delete data or the ability to be forgotten, which is simply not possible with blockchain in its current form. One of the core benefits to blockchain technology has been its ability to permanently imbed and record data. This becomes a problem when data protection laws require you to be able to delete it.

Thankfully it is just a technical problem, which means that someone just needs to improve on the existing technology so that it can comply with the increased data protection rules. And this is happening, as is the objective of creating new crypto-currencies that are not limited in production (another trait of bitcoin). But this goes beyond just crypto-currencies because of the wider and more exciting uses of blockchain technology. For us, it is not so much what the technology does but whether we offer the best environment in which to develop it, and I think we do.

It is going to be interesting to see how the data-protection laws are played out over time as this is not just about Bermuda ensuring it complies but how the rest of the world outside the EU reacts and implements it all on home ground. At the end of the day we have a great opportunity to set our own standard that not only aligns with European requirements, which is currently the highest standard globally, but also takes into consideration how we as a jurisdiction can benefit from our compliance.

Matthias Knab Brenton, what do you see from your side, so within insurance and reinsurance?

Brenton Slade: Let me step back to my previous point regarding how highly regulated the businesses that we, as an administrator and facilitator, operate in are. Our business segments; Insurance Management, ILS Transforming, Fund administration, and Corporate Services, are all subject to licensing and regulation by various sections within the BMA in Bermuda as well as the respective regulators in our various jurisdictions we operate in. Therefore, we face that whole sort of waterfall of underlying regulations that need to be complied with and adhered to. It has become quite a challenge for a business to have the infrastructure needed just to comply with all these regulations. So from that perspective it can be a challenge to conduct business.

Neil had mentioned that there was a period in time where Bermuda had lost market share on hedge fund formations. Subsequently, the fund administration business, for example, that used to be one of the pillars of the Bermudian economy then also relatively quickly moved back onshore. Insurance and reinsurance can also ebb and flow between Bermuda and onshore, in certain circumstances the regulatory touch and burden onshore is less than what we face here in Bermuda. So once again we have to be careful to maintain the integrity of the jurisdiction from the international perspective, but be vigilant not to over regulate ourselves out of business.

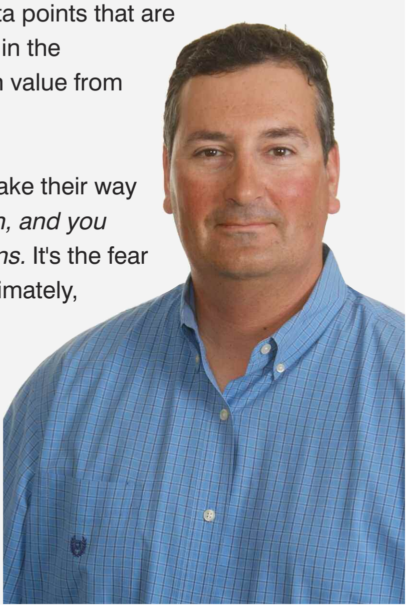
Now, regarding cyber, if you take a look at the future utility for cyber and related risks in the insurance and reinsurance market, we really find two opportunities there.

First is the operational aspect, meaning how can you apply that technology to enhance your operational efficiencies in the way you conduct business? There's a huge opportunity there given that insurance and reinsurance businesses generally operate on fairly **archaic technology.** Remember, insurance is a very traditional business going back to Lloyd's nearly 400 years ago. Policy forms have not been innovated in a significant sense for hundreds of years, we really have not made quantum advances from where we started for a long period of time.

Also, these markets are heavily intermediated, especially the reinsurance business where 95% or so of that business is intermediated by brokers. There is an opportunity to disrupt that service chain and just open up incredible efficiencies and opportunities for innovation and new services to be provided, simply because the structures and processes are so traditional. Insurance is also a business that warehouses **massive amounts of underlying data.** Just think of a small primary company that has all the data on all of its policy holders warehoused and is seeking to further exploit that information in additional ways. Then you take the reinsurance view, composed of a portfolio of many of those primary companies, and the reinsurer will have hundreds of times the underlying amount of data, so you are talking millions of individual data points that are warehoused. That data has value across multiple verticals which is not necessarily exploited in the provision of services. We have seen new entrants over the last number of years trying to gain value from that sort of data set with varying degrees of success.

Secondly, as I mentioned earlier, insurance is a traditional market and new products don't make their way into the market easily. *An emerging risk class such as cyber is by nature somewhat unknown, and you may not have long term traditional data sets available in order to make informed risk decisions.* It's the fear or concern that if you don't understand all the parameters of a risk, losses will follow. And ultimately, this business is all about preventing losses rather than paying losses.

This means that there's a void for new products in quite a few sectors, but at the same point there is also a significant amount of reticence to move forward because of the unknown.



Steven Rees Davies: Are you referring here also to things like wearables and life and health insurance?

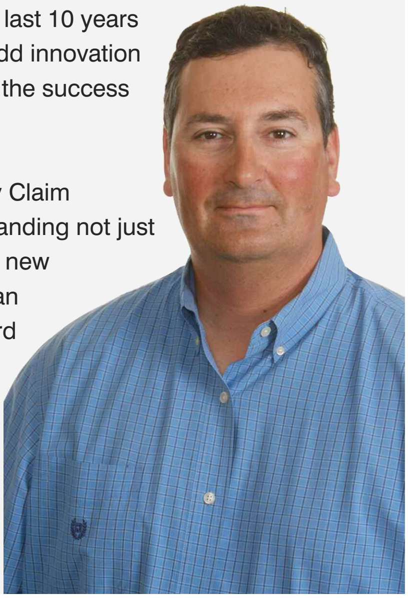
Brenton Slade: No, health insurance and life insurance are quantifiable, and there are vast historical data sets and trends that allow very accurate decisions to be made in those lines. Cyber, on the other side, is a whole new, unknown frontier.

Even casualty risks in new markets, there's limited data to support the underlying loss trends, so how do you make a decision on what your exposure is? And if you can't make a decision accurately on what your exposure is, how can you come up with the price you'll charge for that? So typically with new risk, you charge a high rate to compensate for that aspect. But then will there be demand for that product at that price for that risk?

Sean Moran: Where do you think is the opportunity for Bermuda to take a leadership role in addressing and closing some of these newer risk gaps?

Brenton Slade: You can look at this from the perspective of a regulator or from the perspective of a regulated entity. My thinking here is to let the market sort of develop, it will find solutions on its own without any imposition coming from the top down, I think this should be a bottom up process.

For example, the whole ILS market which has grown from infancy to where it is now over the last 10 years was exclusively a result of having a nimble environment that encourages innovation. If you add innovation onto a base industry that's relatively stagnant, then the velocity will increase, and this is how the success on the ILS side has occurred.



But there are products on the cyber side. I was just talking to someone from PCS – Property Claim Services. For years they just kept property and casualty loss numbers and now they are expanding not just to new geographical zones but also new perils, and so really opening up the ability to create new products from ILS to cyber. They are trying to now aggregate enough data to come up with an industry loss amount with some of these breaches like Equifax so that there is a credible, third party data point that the market can take a look at to calculate the exposure if risk is being taken on that particular peril. So, there are already some interesting things going on that can lay the foundation for further development. But, coming back to your question, I'm not exactly sure how that process can be enhanced, but I would say a good start includes free markets and the talent, and Bermuda could as well be a leader in those innovations.

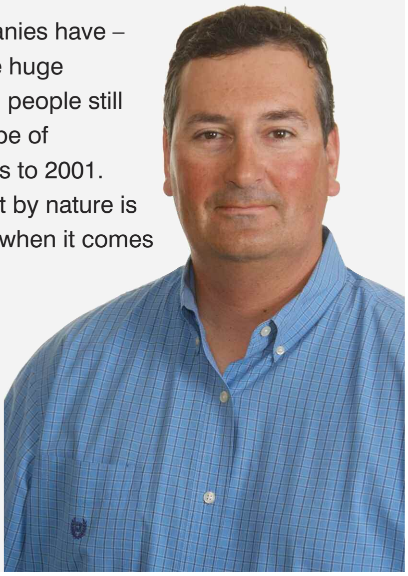
Christopher Eaton: In the context of traditional insurance for most of the risks it is possible to define and establish a sort of normal tail. But the tail risks for things like cyber events are still a bit of an unknown.

Brenton Slade: The tail can be somewhat addressed in the structural policy form and language, similar to how we have developed the structures popular in the ILS market. But then it comes down to give and take between what is good for the insured or the reinsured and what is good for the purchaser of that coverage.

But you can't drive a square peg through a round hole and demand that somebody buys a policy they don't need or that doesn't work for them. I think that aspect is keeping the business from growing significantly over the last number of years.

Matthias Knab I wonder, Bermuda has always been pretty innovative when it comes to underwriting. Is that something that could be to Bermuda's advantage in cyber?

Brenton Slade: Potentially, yes, because the Bermuda place market has been the home for newly formed and thus younger companies in that sector. And so by nature, these newer entrants don't have legacy systems, mindsets, or frameworks to deal with and overcome, right? It's new money, new capital, new corporate culture, new systems, and this is a huge benefit.



Back to my point of both the massive quantity of data that insurance and reinsurance companies have – large domestic insurance companies that have grown inorganically through acquisition have huge obstacles to overcome through legacy systems. There are very interesting stories regarding people still working on obsolete systems and technology. Newer firms don't have to worry about that type of problem. Even the more mature companies in this business in Bermuda are from the mid 90s to 2001. Horseshoe is now 13 years old and considered a mature cornerstone of the ILS market! That by nature is not an old company, and they don't have to overcome that sort of legacy and those hurdles when it comes to developing a culture of technology and innovation.

So you are right in the sense that many new products, innovation and underwriting technology have either occurred here in Bermuda, or have occurred because of the ideas are being spawned here, or the encouragement and investment have been from a Bermuda entity. And naturally, over time there have been hits and there have been misses, but the spirit is here, which probably is the most important thing.

Neil Glass: I'm just going to take a minute and talk about some of the things happening in the world of independent directors in Bermuda. First, there is a critical mass of professionals that have been here for a long time which means that there are a lot of really well-equipped people to take on the responsibilities of independent directors.

A couple of weeks back, I attended a seminar that KPMG held in conjunction with the Institute of Directors. There were three people from the UK and one person from the Bermuda Monetary Authority on the panel. The BMA representative reiterated that the BMA looks at independent directors as providing a very meaningful and important role for companies.

This is maybe also one of the reasons why the Institute of Directors, which is an UK-based organisation, has a robust branch in Bermuda because there are so many people in Bermuda that are involved with this work, which is great because it enables me and my fellow directors to have access to up to date best practices and the wide range of professional development courses that they offer.

Another interesting new initiative that we now also have in Bermuda is called **Board Apprentice** which started in Jersey and from there also expanded to the UK. This is a mentoring programme for boards directed at talented people who have the relevant experience and background, but they have never been on a board. If you look at the boards I am on, they are mainly comprised of people who look like me, and when you have homogenous boards there is a certain risk of group think – when everyone comes from a similar background, there can be a tendency of always coming to the same conclusions when presented with a problem.

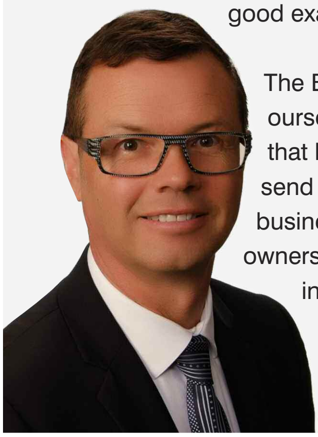
Board Apprentice is really looking at involving people from different genders, different races and different ethnic backgrounds, and offering them real boardroom experience. They will already have the technical experience, but they have never served on a board. The procedure is that you serve as an apprentice on a board for one year. The apprentice isn't a board member, but will attend the meetings with the hope that after he or she has been through this process for one year, the apprentice will be more familiar with board practices and can then actually go on and become a board member in his or her own right. I think the program is well-suited to Bermuda, as we have a deep bench of talent available for independent directorships, which is very positive for the jurisdiction.

Also, the BMA has made it very clear that they don't like the model of having corporate directors. They prefer having a person at the end of the phone line whom they can call and question if there are any concerns around a fund.

I'd also like to share a personal anecdote that I believe displays the secret sauce of what makes Bermuda such a special place to have an international business. I think it is in Bermuda's DNA to jealously guard our reputation, Steven also alluded to this before. When my wife and I moved here in 1990 from Canada, we were opening up a bank account with less than $10,000. *To accomplish that in 1990, we had to have letters of reference from our former employers in Canada, from our former banks in Canada and from our current employers in Bermuda because Bermuda has always wanted to know who their customers are.* At that time, it seemed like overkill, but the reality is that **Bermuda was ahead of its time** compared to other jurisdictions. Now, as new international KYC and AML policies come through, everyone in Bermuda is already very familiar with the concept because we have been practicing it for a very long time.

I think the other magical thing about Bermuda is the proximity of the different professional people in a very small area. You walk out of this office, and within two square blocks, you have numerous international law firms, all the audit firms, the administrators, corporate trust companies, and so on. Because Bermuda is quite a small place, you run into people all the time. That makes doing more business that much easier, because you are always running into your professional colleagues. Having that critical mass of quality people and quality companies in a small area really makes a difference.

Another success factor for the jurisdiction is that since Bermuda became a leader in international business in the 1930s, it found out that having the industry work in partnership with the regulator and with the government is extremely beneficial. A good example of that is the new beneficial ownership regulations.



The Bermuda government approached industry and together with the regulator, we started out by asking ourselves what are these initiatives really trying to accomplish? So, within fund management, the area that I work in, it's already clear that ownership information is already being gathered on fund investors to send to respective countries under FATCA and Country to Country reporting. It's really no one else's business who owns how much of a fund. So the fund industry is being carved out of the new beneficial ownership rules, because to do so makes sense. But if the government and the BMA hadn't consulted with industry, there's a chance that they could have forgotten or overlooked certain aspects of sensible regulation, but by working in partnership, we are able to hopefully avoid those sorts of difficulties.

Marc Weaver: Neil spoke about the secret sauce of Bermuda. There were certain aspects around Bermuda that helped Centaur making the decision to establishing a physical presence here and growing it.

The **tax-neutral status,** first off, was important to us as a global business. The connectivity to New York and London, our two most important client locations, was also critical. Having a pool of talent, and the ability to hire people here relatively easily to work in specialized positions, was vital. The island's reputation and credibility with our clients and investors, as well as the regulator and the political stability…all of these were very important considerations as Centaur was thinking about where to expand its operations into.

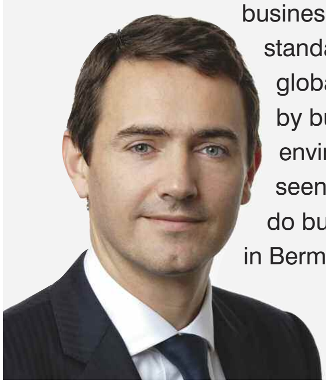
Speed to market was another important part of entering any market in North America for Centaur and launching in Bermuda made this possible. We incorporated the Bermuda company at the end of 2015, and were able to receive our fund administrator licence from the BMA by June 2016. The next step was recruiting a team and the new business initiative which was provided by the Bermuda Government alongside the Ministry of Economic Development was key to Centaur being able to hire talent quickly allowing Centaur to focus on our clients.

So, the coordination of local agencies including the BDA and the Ministry of Economic Development greatly assisted with an efficient and successful launch of Centaur's operation in Bermuda. When we started, our goal was to have 15 people within three years. We are looking to be around 10 people by the end of the year and could be 15 by end of the first quarter 2018. All of the support locally, including the BDA, assisted with quick launch and growth of Centaur as it allowed Centaur to concentrate on its strength of the administration of alternative investment funds.

Steven Rees Davies: Brent made some comments earlier that you don't actually lead **innovation** from a government level, but rather it's within specific business environments where opportunities or innovations arise. I think that because of Bermuda's reputation, our history and our ability to communicate rapidly and create solutions and introduce new or amended legislation and regulation to meet market needs, we are in the best position to take advantage of this new paradigm.

I think a lot of people have forgotten about it, because it's not receiving the same press attention as it once did, but the OECD BEPS project is creating a lot of change and a lot of things are happening at a global structuring level as a result. Many of my clients are looking at how they do business globally, not just from a structuring perspective, but also operationally. As a result, new opportunities are arising for Bermuda. And it's not just the OECD-promulgated regulations that are causing people to rethink how they do business globally, but all the other regulations like data protection, cybersecurity and intellectual property concerns, as well as how jurisdictional differences are arising between tax systems.

I think that because of the reputation Bermuda has, changes that are occurring at the global level are not going to inhibit business offshore as many people might perceive, but promote it. I think what it's going to do is set a new standard as to which offshore jurisdictions are going to be the survivors and the leaders, and this new global paradigm of how people do business. That's going to be an interesting shift – it's going to be led by businesses reacting to how onshore regulators and onshore legislators are changing those environments and how that then affects their structuring on a global level. And that's where I think I've seen more interest in people and the businesses themselves making decisions on how they're going to do business in the future. That's where we should be looking, and I'm very comfortable and confident that in Bermuda, we are well placed for that.



Sean Moran: Bermuda's motto "Quo Fata Ferunt" means "whither the fates will carry us" – and it's very appropriate in the context of this conversation. The first settlers who arrived here in 1609 had to be very innovative to survive, and that's in the Bermudian DNA. With wave after wave of innovation over the years, Bermuda has had to change direction and adapt many times and be innovative to stay in the game…and I think we continue to demonstrate that attribute as we face challenges in the ever-changing world of international business.

I attended a conference earlier this year where an economist was speaking about the future of international financial centers – whether offshore centres in the traditional sense, like Bermuda, were going to be put out of business **by mid-shore or nearshores centers** like Singapore and Hong Kong and even some of the U.S. states like Delaware.

His opinion was that, while certain players will fall out because they are not able to stay abreast of the changes that are happening, there will definitely be a place for Bermuda in this new global paradigm as Steve described it, because of exactly what we've been talking about here: the continued ability to keep pace with international developments and global pressures, as well as to stay on the right side of all of worldwide moves towards increased transparency and stronger compliance with tax-reporting requirements. These are the general characteristics that have always made Bermuda an excellent place to do business, and I think they will serve us well as we move forward.

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