

The City of Hamilton.  
Photo: Courtesy Ann Spurling

# BERMUDA'S BANKS: EXPLORING NEW CHANNELS

BY CRAIG BRIDGEWATER

Bermuda's financial services industry has always enjoyed a very strong reputation. Bermuda is known globally for being a stable and high quality jurisdiction with effective regulation, sound infrastructure, talent and an excellent track record for attracting and retaining business. It has also been recognised as a leader on global transparency issues: the Island has more than 100 tax treaty partners around the world; the Island was the first offshore jurisdiction elevated to the OECD's 'white list' for jurisdictions that have substantially implemented internationally recognised tax standards; and Bermuda has also signed Model 2 intergovernmental agreements with the US and UK under the Foreign Account Tax Compliance Act (FATCA) and is a member of the Early Adopters Group of the Common Reporting Standard (CRS) developed by the OECD.

**B**ermuda's banks have a long and important history in the community and have played a key role in shaping the Island as it is today. There are four banks on the Island: HSBC Bank Bermuda (HSBC); The Bank of N.T. Butterfield & Son (Butterfield); Clarien Bank (Clarien); and Bermuda Commercial Bank (BCB). These banks focus on serving the needs of the local and international businesses based on the Island, the approximately 65,000 local population, as well as serving overseas customers.

## TRENDS IN THE MARKET

The banks are increasingly focused on customer centricity and responding to customers looking to engage in new ways with their banks, such as the desire for tailored banking services and new channels, including mobile applications. The banks are also responding to more informed and active shareholders, who are continuing to seek acceptable returns on equity but at the same time requiring effective management of other significant risks such as reputation and data security.



Clockwise Banks in Hamilton. © wwing / iStock by Getty Images, © Dougall Photography / iStock by Getty Images, Photo: Courtesy Bermuda Tourism Authority

This is all set in the context of a low interest rate environment, a continuing increase in regulation, the requirement for more information to be reported to various stakeholders, as well as increased capital requirements.

**BERMUDA'S BANKS**

The four banks manage Bermuda's total deposits of \$21.3 billion (as at March 2016). The banks maintain a strong capital position, with annualised return on equity of 12.6% and a Basel III risk asset ratio of 21.0%<sup>1</sup>.

HSBC is the largest bank on the Island, with total assets of approximately \$11.992 billion (2015). HSBC entered Bermuda via its acquisition of the Bank of Bermuda Limited in 2003, looking to leverage the existing corporate and private banking client base. The Bank of Bermuda was founded in 1889. It had sizeable offices in Bermuda, Hong Kong, Dublin, Luxembourg and Guernsey, as well as small operations in London, Jersey and the Isle of Man. HSBC Bank Bermuda now serves individuals, institutions and corporations both locally and globally.

Butterfield was Bermuda's first bank, founded in 1858. In September 2016, it completed an initial public offering of its common shares, with the shares commencing trade on the New York Stock Exchange. Butterfield offers a full range of community banking services in Bermuda and the Cayman Islands, encompassing retail and corporate banking. Butterfield also provides private banking, asset management and personal trust services from its headquarters in Bermuda and subsidiary offices in the Cayman Islands, Guernsey and the United Kingdom. In Switzerland and The Bahamas, Butterfield provides personal trust and company services. Butterfield has total assets of approximately \$10.3 billion (2015).

Clarien Group Limited amalgamated with Capital G Limited in January 2014. Subsequently Capital G Bank Limited changed its name to Clarien Bank Limited. Capital G evolved from the Gibbons Deposit Company, established by Edmund Gibbons in 1936. Capital G historically focused on local customers but the ambition for Clarien is to develop a world-class financial institution with an international footprint that takes the strengths of Bermuda to a

global client base. Clarien has total assets of approximately \$1.2 billion (2015).

BCB was created in 1969 to provide locally-based retail banking in Bermuda. Today, BCB is dedicated to the needs of commercial, corporate and high net-worth clients. BCB offers an array of banking solutions including a full range of custody, trust administration, corporate services, and asset and wealth management. BCB is owned by Somers Limited, a listed Bermuda-incorporated international financial services investment holding company. BCB has total assets of approximately \$0.76 billion (2015).

### THE REGULATOR

Bermuda has a highly respected regulatory body, the Bermuda Monetary Authority (BMA), which is the integrated regulator of the financial services sector in Bermuda. The BMA supervises, regulates and inspects the financial institutions operating in or from within the jurisdiction. It also issues Bermuda's national currency, manages exchange control transactions, assists other authorities in Bermuda with the detection and prevention of financial crime and advises the Government and public bodies on banking and other financial and monetary matters.

In Bermuda – which has no central bank – the financial stability framework relies heavily on prudential regulation and the supervisory activities of the BMA. In addition, a Deposit Insurance Scheme (DIS) and a Special Resolution Regime are being implemented in Bermuda. The DIS will be administered by the Bermuda Deposit Insurance Corporation (BDIC). The Special Resolution Regime will establish a comprehensive bank insolvency framework in Bermuda that would meet international standards and operate independently of general insolvency law.

### CHALLENGES AND OPPORTUNITIES FOR BERMUDA'S BANKS

Bermuda's banks continue to face an increasing regulatory burden including an intensification in the amount and precision of reporting. Much of this has been enshrined in regulation and statutory instruments such as FATCA, enhanced know-your-client (KYC) and anti-money laundering (AML) standards, as well as the advent of Basel III and its related capital adequacy requirements and liquidity coverage ratios.

Despite the difficult recent times the capital ratios of our banks remain strong, exceeding international industry standards. The BMA requires Bermuda based banks to maintain a premium above the international standards in order to compensate for the concentration risk associated with lending in the Bermuda market and the absence of a central bank.

To combat the lower net interest margin being earned, many of the banks have sought other sources of revenue, primarily fee income through accretive acquisitions. These transactions are expected to have a positive impact on fee revenues. For example, in October 2015, Butterfield agreed to acquire Bermuda Trust Company Ltd., the private banking investment management operations of HSBC Bank Bermuda Limited.

The banks are further looking to grow their revenues and their customer base by better understanding the needs of their customers

and creating a more positive customer experience. The banks are looking to seek insight to ensure they can offer products and services aligned to customers' requirements; to connect internal and external data to create value and gain competitive advantage; to adopt a distribution strategy that optimises return on investment and also meets customers' needs; and to provide consistent error-free processing regardless of service channel.

In order to become more customer-centric, the Bermuda banks as well as the international banking sector are increasingly being characterised by rapid and transformational developments in data, information and technology. Managing and taking advantage of the changing data environment requires new approaches to systems, processes, security and governance. Rapid and accurate data collection needs to be complemented by ensuring its accessibility in real time to relevant decision makers while protecting personal and other confidential information from unauthorised access.

Although the Bermuda banking industry is at the infancy stage with regards to warehousing data on customer needs and behaviours, this is a growing area of focus in Bermuda.

### CONCLUSION

Bermuda's four banks continue to evolve and to contribute to the maintenance of the strong reputation of Bermuda banking, and the financial services industry in general. This is despite forces transforming the industry, globally and locally, including the growth agenda; management of cost; compliance with regulation and managing its impact on business models and economics; and customers demanding ever higher levels of service and value. Investment is being made in technology to enable both the customer experience and to increase the efficiency and effectiveness of operations. Consequently, the future of banking in Bermuda is set on a positive course.

### Footnotes:

- <sup>1</sup> Source: Quarterly Banking Digest Q1-2016, Bermuda Monetary Authority.



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