Bermuda

CRT-2

August 22, 2019

Region: North America

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Bermuda is a CRT-2 British overseas territory with low levels of economic risk, political risk, and financial system risk.

• The economy expanded 1.7%, driven by an expansion in construction and exports in the latter half of 2018. GDP forecasts are for growth at a similar level in 2019, as the prior year’s drivers remain. Medium-term GDP is expected between 1.0% and 2.0%, as a result of the global slowdown.

• The map depicts the countries AM Best evaluates in North America and the Caribbean.

Regional Summary: North America

• Growth in the region has decelerated, with various trade-related disputes involving the US (the region’s largest economy at USD 21 trillion), resulting in increased uncertainty. Canada (the second largest economy at USD 1.7 trillion)—is expected to grow below potential owing to several factors, including declining oil prices and decelerating private consumption. Mexico’s growth prospects (economy of USD 1.2 trillion) have been constrained by a decline in business confidence owing to policy uncertainty.

• In the face of slowing global growth and heightened trade tensions, the US Federal Reserve has halted the normalization of monetary policy and signaled a potentially more accommodative stance over the coming year.

• Job growth remains strong, while inflation remains moderate. The region has seen moderate to strong wage growth.

• Mexico has ratified the United States-Mexico-Canada Agreement (USMCA—successor to the NAFTA agreement), but the agreement must still be ratified by Canada and the US to enter into force.

Source: IMF, UN, Swiss Re, Axcro and AM Best
Economic Risk: Low

- Tourism and financial services are the largest sectors for Bermuda. Tourism has declined owing to cheaper destinations, but still accounts for approximately 5% of GDP and 10% of jobs. A majority of tourist visits originate from America, and, as a result, Bermuda's economy is exposed to volatility in the US economy.

- Inflation rose moderately in 2018, with the health & personal care sector rising the most. The sector saw a considerable increase in healthcare premiums in 2019.

- Bermuda’s public debt remains relatively low, at roughly 42% of GDP. The country benefits from strong liquidity, efficient macroeconomic policies, and a developed offshore finance sector. Investments in the private sector have also grown.

- Unemployment is and the participation growth has grown. The youth unemployment rate has been halved since 2016.

Political Risk: Low

- Bermuda’s government is a stable, two-party system and subject to the external relations of the United Kingdom as it remains a British Overseas Territory.

- The Progressive Labor Party (PLP) came out of the July 2017 election victorious, defeating the One Bermuda Alliance (OBA). The leader of the PLP, David Burt, became the new premier, and his position is likely to be secure.

- The new government is maintaining a pro-business agenda, focusing on attracting foreign investments. The legal system is regarded as independent and largely efficient, providing for a stable framework for business.

- The annual trade deal between Bermuda and the EU is being reviewed as to not be affected by Brexit. Uncertainty about the future of the UK’s trade policies due to Brexit remains.

Financial System Risk: Low

- The Bermuda Monetary Authority’s Insurance Department supervises, regulates, and inspects the island’s insurance industry and licenses brokers, agents, and managers.

- Bermuda has a strong insurance and reinsurance industry, which receives significant foreign investments.

- Taxation is low and mostly indirect, which creates an attractive framework for foreign investors. However, recent tax reform in the US, which lowered corporate taxes, makes Bermuda’s tax environment less competitive. Additionally, a new law in the UK aimed at increasing transparency now requires disclosure of beneficial owners. Bermuda passed a bill in which companies are now required to be physically present in the country in response to the US and UK changes.

- Bermuda is building a hub for financial technology companies. New legislation in Bermuda enables the banking sector to provide services to the FinTech sector.