

ESG Investing in Bermuda

Carey Olsen Bermuda counsel Sheba Raza highlights Bermuda's role within the sustainable economy

Service area / [Corporate, Investment Funds, Trusts and Private Wealth](#)

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The renewed focus on sustainability and social responsibility, whether as a result of recent corporate scandals, climate change or the impact of COVID-19, has been hard to ignore. Investors are now openly expressing their intention to hold global businesses to account by consciously choosing to integrate environmental, social and governance (ESG) factors in their decision making when deploying their capital in companies or financial instruments.

“ESG Investing”, whilst a hot new trend is not a new concept in Bermuda.

The “E” in ESG covers a broad range of environmental considerations – including action on climate change, conservation programs and efforts to support biodiversity and ecosystems. The “Social” aspect of ESG includes education, health and displacement considerations as well as diversity and inclusion matters. The “Governance” aspect of ESG includes the operational and regulatory framework of the underlying businesses and instruments in which investments are made and is designed to encourage investors to apply the UN Principles of Responsible Investing launched in 2006.

As early adopters of innovative insurance solutions to natural catastrophes and disasters alongside impact investing, the insurance and asset management industry in Bermuda embraced socially responsible investing some time ago.

Bermuda offers investors and businesses a wide variety of structures and services that can be tailor-made to meet ESG goals – from creating and listing insurance linked securities to the formation of investment funds for sophisticated institutional investors to trust structures designed for families to invest multi-generational wealth. Bermuda has a deep pool of experts able to assist asset managers to develop, implement and monitor ESG strategies, access to insurance brokers and underwriters to raise capital, all the while supported by a strong regulatory platform and reputational integrity.

Environmental

Bermuda is home to the Bermuda Institute of Ocean Sciences (BIOS), a non-profit scientific research and educational organisation that addresses local and global environmental issues and hosts some of the longest-running oceanographic and atmospheric observation programs in the world, contributing to seminal advances in climate research.

As the risk capital of the world, Bermuda's insurance industry has been instrumental in providing insurance protection and cover in the wake of catastrophic weather events and works closely with the BIOS scientific community to seek solutions on climate risk, biodiversity and weather volatility.

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The issuance of catastrophe (“cat”) bonds has been part of the Bermuda insurance landscape for decades and these bonds are the most common form of Insurance Linked Securities (ILS). The continued development of the ILS market has created a clearly understood asset class with a strong performance track record attracting significant investor and risk capital demand. The ILS market provides valuable liquidity for governments and communities in terms of preparation for, and recovery from, natural disasters and can help mitigate the impact on displaced vulnerable communities. Bermuda’s own experience with natural disasters informs the continued drive for innovation in this space.

ILS, including cat bonds, have been identified as ESG compliant investments from both an environmental and social perspective and are recognised under the UN Sustainable Development Goals as sustainable development investments. A recent rise in ILS issuance underlines the ILS market’s ability to provide much needed capital to support businesses impacted by the COVID-19 pandemic. The increased recognition of the ESG credentials of ILS as an asset class is also encouraging rating agencies to actively analyse the effect of ESG factors on rating methodology.

Social

2020 is being hailed as a record year for sustainable funds worldwide. Fund managers in Bermuda, whether focused on ILS or other assets, have long been integrating ESG style criteria into their investment philosophies. Clients benefit from a solid track record of impact investments and asset managers have showcased what Bermuda structures can offer the socially responsible investor.

Examples include the direct application of advisory and management fees payable on Aurum’s embedded impact funds (launched in 2002 and 2019 respectively) to support environmental, health and education charities. New entrants to the Bermuda market can also benefit from access to experienced locally based asset managers able to develop, implement and monitor ESG strategies.

Bermuda also offers a wide variety of licensed trustees and wealth management services to high net worth families seeking to structure and manage their investments along socially conscious principles.

Access to wealth managers and experienced trustees alongside the creation of innovative trust structures and the use of segregated accounts can allow multi-generational families to create bespoke investment philosophies for individual beneficiaries. Bermuda was also one of the first jurisdictions to allow the creation of non-charitable purpose trusts and these types of purpose trust continue to be used widely for managing ESG investments that may be considered “high-risk” or “alternative”. In addition, Bermuda has abolished

its rule against perpetuities thus supporting the establishment of long-term philanthropic legacies and has detailed and sophisticated legislation dealing with reserved powers trusts.

The Atlantic Philanthropies founded by entrepreneur Chuck Feeney in 1982 is a defining example of how Bermuda structures can have a global impact on social programs. Over 37 years, Atlantic will have invested in excess of USD 8bn via 6500 grants addressing inequity, promoting civil society and increased access to education across Australia, Bermuda, Cuba, Northern Ireland, Republic of Ireland, South Africa, the US and Vietnam.

Governance

Good governance is embedded into Bermuda’s ecosystem. Bermuda is known for its strong corporate governance architecture, political stability and a robust regulatory framework supported by a world class regulatory authority in the form of the Bermuda Monetary Authority. This reputational integrity is coupled with an effective understanding of the need to adapt to new business opportunities by providing flexibility and legislative reform as markets develop.

In keeping with this forward thinking approach, The Bermuda Stock Exchange launched an ESG initiative in 2019 to promote the World Federation of Exchanges’ five Sustainability Principles and is leading by example by encouraging its market participants along with the wider business community to adopt responsible investment strategies and business practices.

This approach to good governance and a sense of social justice is exemplified by the appointment of Bermuda’s incoming Governor, Ms Rene Lalgie, who in a recent interview highlighted Bermuda’s reputation “as a great environment in which business can flourish ...with some of the highest international standards in combatting international financial crime”.

Bermuda and the new investment paradigm

Investment analysts are keen to stress that as more data becomes available, being able to analyse key financial metrics alongside ESG considerations could become the norm for more informed investment decision-making. Investors can seek to influence businesses to seek longer-term success and profitability based on sustainable corporate strategy. The COVID-19 pandemic has also undoubtedly increased investor focus on social risk factors. Being able to align investments with their social and environmental values could also ultimately encourage greater participation in the financial markets from a broader cross-section of society.

Continued

As a world leading international finance centre, Bermuda is well placed to be a fundamental part of this new investment paradigm and to harness its depth of existing experience to further drive the sustainable economy forward.

No doubt there will be challenges ahead, but Bermuda has already demonstrated great resilience in the face of the COVID-19 pandemic. Supporting and developing innovative and bespoke solutions to meet the ESG needs of investors and businesses in the post COVID-19 era is just one example of how Bermuda intends to positively embrace the radical change the world is experiencing.

For more information on ESG investing in Bermuda please contact Sheba Raza or your regular contact in our Bermuda team and they will be delighted to assist you.

Key contacts

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