

PART ONE
1609–1959

CHAPTER 1

First Steps and Onwards

Establishing the local market

Somebody once said that it is very easy to come to Bermuda but very difficult to leave. Although one may readily understand such a statement today, it would have been true only in part until the modern age and the invention of the steamship. For centuries after these islands had been discovered, by passing mariners, who came upon them at risk of their lives, Bermuda was almost inaccessible and, except in rare cases of extreme desperation, was a place to be avoided. So long as navigation was wholly dependent on wind and weather, these tiny islands lay best forgotten by the rest of the world, save in the tales of those who had escaped the deadly ramparts of coral reefs. By virtue of its sheer remoteness, out in the Atlantic, at nearly 3000 miles from Europe and some 600 miles from the United States, Bermuda remains to this day one of the most isolated islands in the world to support a resident people.

As man's quest to conquer the world extended in the sixteenth century, so tales of the 'Isles of the Devil' began to circulate around the courts of Europe, but Bermuda successfully kept the early navigators at bay. Then, after centuries of scaring away those whom it thought unworthy, Bermuda opened its arms and beckoned in a band of castaways, revealing for the first time its beauty, its means of sustenance, and its mystique.

In 1609 a mighty hurricane blew in the mid-Atlantic, dispersing a little fleet that had set out from England to save a newly founded settlement in what was then Virginia. The flagship was blown away from the others by the storm and driven for days and nights, some thousand miles or more, helpless and slowly sinking. The only possible chance of landfall lay in the fearsome 'remote Bermudas' of maritime story. By what even now must seem a miracle, but may in fact have been a masterwork of the most brilliant seamanship, Admiral Somers and his fellow voyagers reached the Bermudas and, although their ship was wrecked on the reefs, not one of the lives aboard was lost.

They were, as one might say, 'held captive in Bermuda' all through the autumn and winter till the spring, by which time they had built two new ships in which to continue and complete their mission. They sailed onward, except for a few who chose to remain in Bermuda, and they saved the colony at Jamestown, Virginia. Then, in a demonstration of the most extraordinary, courage, loyalty and perseverance, they returned to their tiny, uninhabited, almost unknowable and inaccessible sanctuary of Bermuda and founded the country that we know today. It was as though Bermuda had penetrated to their inmost souls, without their even really understanding how or why. And so it proved that upon a day of near disaster, on Friday the twenty-eighth of July in 1609, Bermuda's long history, of holding captive those who dared to step ashore, was bravely though unknowingly begun.

It is interesting to note the pivotal role that nature has played in shaping both the physical and environmental characteristics of Bermuda. The island was born out of nature's most powerful and primordial volcanic forces, and then for countless thousands of years was shaped by the sculpting of Atlantic winds and waters. The first settlers were brought here by the fury of a tempest and even in these modern times the catalyst for the explosion of our international insurance business was yet another of nature's furies, Hurricane Betsy in 1965.

Bermuda has always lured the unsuspecting and then allowed them to grow beyond their wildest dreams. This book explores that fascinating story. Firstly, by revealing how Nature forced men to Bermuda's shores and caused them to fall unwittingly under the island's spell. Then it moves on to wave after wave of disasters, some natural, others brought about by man's quest for capital and industrialisation. Catastrophes, both natural and manmade, have often led newcomers to be captured by Bermuda and have so occasioned it to become known around the world as the island that maintains a delicate balance in the global economy.

Perhaps because of their isolation, Bermudians have always been very resourceful and as such have become astute in business. Always searching for the right balance whereby to hold a place in the world, Bermudians have of necessity kept themselves responsive to worldwide events. Consequently they have learned to think globally rather than parochially.

With not much local industry to speak of, Bermuda has managed to reinvent itself again and again to keep up with the times. Instead of lying down and accepting defeat whenever they met with 'failure', the business leaders, politicians and people of Bermuda have always pulled together and worked together and so come through together, even in difficult times.

Islanders must by nature be risk takers. William Kempe, former partner of Appleby Spurling & Kempe and one of the original front runners who brought Bermuda international business, spoke of that island quality when he said that, 'Since 1612, Bermudians have been imaginative enough to take what's in the offering because it took imagination, courage and innovation to allow us to move through the ages of piracy to shipping to agriculture to tourism and now to International Business.'

It was also as of 1612, when Bermuda officially became a colony, that Bermudians have had to learn to be astute in order to keep up with what was happening out in the world that lay so distant from their shores. Though the first concern of the settlers would be to cultivate their few acres of arable land and to fish their livelihood from the sea, yet they would also learn from very early on how closely they were involved with the world beyond those far horizons. All island people are voyagers, be they voyagers just around their islands or across the seas. Size and distance are measured in the mind and not on maps.

Though tiny and remote, Bermuda has always been significant. It was one of the very earliest ports of a global network. Long before the icon of the Internet there was another icon, a flag 'on which the sun never set'. Bermuda was a foundation stone in what was to become the British Empire and as such had an importance, at first strategic and latterly financial, out of all proportion to its size.

We may ask ourselves where, in times past, would a man of finance in the City of London have glanced when he looked at the map on his wall? Sometimes Calcutta, sometimes New York, sometimes Zurich, Berlin or Shanghai? Even now, when London is no longer the only capital of global finance, where will that man's successors be and where will they glance when they look at the maps on their walls? The answer, past and present, in both cases, to either of these questions might well be—Bermuda. We shall see how this came about.

The Launching of a Bermuda Insurance Industry

It would seem that in 1784 Bermudians first recognised how money could be made in the marine insurance business and thereupon established the Bermuda Marine Assurance Company. The company issued its first policy on 28 December 1784, to cover a shipment of cargo, from Bermuda to Philadelphia, on board the sailing vessel *Liberty*, commanded by a Captain Wright. The sum insured was £400 at a premium rate of 2.5 per cent with a refund of 2 per cent if no claims were filed.¹ To enable the efficient transaction of international commerce, Bermuda began its first postal service and *The Bermuda Gazette* was published for the first time.

¹ Speech delivered by Cyril Rance in 1985

With the exporting of produce from Bermuda to the United States and Canada, marine cargo business became quite lucrative, which encouraged the large UK insurance companies to appoint and support general agents in Bermuda.² In 1815, just as Hamilton was to be made Bermuda's capital in place of St George, Mr N. T. Butterfield became the first contact person for the Phoenix Assurance Company of London.³

On 12 February 1815 the Phoenix Fire Office began a long standing relationship between the Bermuda and London insurance markets when George W. Lovell wrote a letter to Nathaniel Butterfield appointing him as the agent of the Phoenix Assurance Company.⁴ Thus in 1815 Butterfield became the first agency appointed to write domestic business for an overseas insurance company. This agency still exists today, as C.N. A. Butterfield & Son, but it now places business with Lloyd's.⁵

The British soon began to take a shine to the lucrative Bermuda market and therefore began to seek partnerships on the island. As a result, in 1902 Harnett & Richardson became underwriting agents for Guardian Royal Exchange Assurance Co. Ltd. Harnett & Richardson is now a member of Freisenbruch Meyer Group.⁶

Seeing the developing interest in insurance on the island and never wanting to lose out on an opportunity, some Bermudians decided it was time they stepped into the game before it was too late. Therefore on 18 August 1902, eight Bermudians (J.D.C. Darrell, W.T. James, John S. Darrell, Ambrose Gosling, T.J. Pearman, E.J. Thompson, E.C. Pearman and W.A. Bluck) got together to discuss the opening of a fire and marine insurance company for the sole purpose of insuring domestic risks. These gentlemen not only resolved at the time to go ahead with the company, they also decided on the name—The Bermuda Fire and Marine Insurance Company Limited.⁷

In 1903 the first local insurance company was incorporated.⁸

'The Bermuda Fire and Marine Insurance Company was formed by a group of eight Bermudians who understood the necessity of having a domestic insurer participate in the growing demand for fire insurance covering new building construction and for cargo insurance and thereby keeping a certain portion of the premium in Bermuda.'⁹

Coincidentally, but seeming in retrospect to be more like a portent of things to come, the same year of 1903 witnessed the birth of Henry Tucker, who would become a leading force in changing forever the landscape of international business in Bermuda.

The Bermuda Fire and Marine Insurance Company was the first Bermuda limited liability insurance company. It transacted all of the domestic insurance business with the support of foreign companies.¹⁰

The Bermuda Fire and Marine controlled the local market for almost six decades, until 1957, when the Bermuda Life Insurance Company was formed, followed the next year by the Colonial Insurance Company. Then in 1961 Argus Insurance Company Limited (parent of both Bermuda Life and Somers Isle) was formed, to round out the local insurance market in Bermuda.

² Speech delivered by Cyril Rance in 1985

³ *Historical Development of Insurance in Bermuda*, Bermuda Insurance Institute, Chapter 1, 'The Domestic Market'

⁴ *Bermuda Archives: The Phoenix Assurance Company papers*, letter of George E. Lovell Sr. to Nathaniel Butterfield Sr, 12 February 1831

⁵ Bermuda Insurance Institute: op. cit.

⁶ op. cit.

⁷ Cyril Rance, speech to Bermuda Insurance Diploma Association and interview with Glenn Titterton.

⁸ Bermuda Insurance Institute: op. cit.

⁹ *The Bermudian*, April 1991, 'Focus on Business', Cyril Rance, 'Is Bermuda poised to fulfil its function during the 1990s?'

¹⁰ Speech by Cyril Rance 1985

Many say it was the creation of the infrastructure for the domestic insurance market that set the stage for Bermuda's debut in the international insurance marketplace, which began with American International in 1947 and grew steadily over the years until the present day, when Bermuda is not simply viewed as an offshore domicile but as a truly global insurance marketplace.

Meanwhile, between 1900 and 1930 Bermuda underwent other significant changes to its infrastructure, in an attempt to keep pace with a rapidly modernising world. The first among these major innovations came in 1901, with the introduction of the automobile (steam-driven), and lasted until 1908, when automobiles were declared illegal because no one wanted the 'congestion' they would bring to the island. Somebody had some foresight, or so it would seem.

CHAPTER 2

Effects of a Natural Catastrophe

The San Francisco Earthquake of 1906

Shortly after the first major local insurance company, Bermuda Fire and Marine, opened for business in 1903, the global insurance industry was to undergo a major change due to the wrath of Mother Nature.

The Great California Earthquake of 18 April 1906 was one of the worst natural catastrophes to strike North America in modern times. Photographs of San Francisco taken during the hours and days that followed show urban devastation on a scale that was equalled only by the artillery and aerial bombardments of the two World Wars. After the Earthquake (8.25 on the Richter scale) came the Fire. Some 3000 lives were lost, a quarter of a million people were rendered homeless and the city of San Francisco was almost destroyed. Property damage has been estimated at previously unimaginable levels as high as 500 million US dollars. In the words of the Munich Re Group it was an ‘acid test’ for the insurance industry. (The share of the loss that fell to Munich Re alone was 11 million gold marks.) ‘Experts reckon that a similar earthquake in California today would result in losses totalling up to \$80 billion dollars.’¹¹

As a result of this massive tragedy in San Francisco, the insurance industry worldwide realised that there could be no such thing as boundaries or borders between the varying countries that provided services to each other. The members of the industry quickly learned that without mutual assistance the whole insurance philosophy would fall into ruins. It was this tragedy that removed the concept of borders from the insurance industry forever and that led to the opening of the global insurance market as it is known today. The crisis also changed the scope of reinsurance purchasing which would later undermine a fundamental concept of insurance—that of spreading the risk amongst many insurers, beginning with the introduction of the concept of excess of loss reinsurance by a shrewd and clever businessman, Mr Cuthbert Heath, a member of the Lloyd’s of London syndicates.

Changing the scope of reinsurance – Cuthbert Heath

In a special issue of *Business Insurance* published to mark the Millennium, Carolyn Aldred and Edwin Unsworth recorded the history as follows—

‘...The individual most closely associated with making Lloyd’s a major name in the US is Cuthbert Heath. Mr Heath’s firsts at Lloyd’s include non-marine reinsurance treaty, a loss-of-profits element in fire policies, contents insurance, an all-risk policy for jewelers’ block insurance, workers’ compensation insurance, and bankers’ blanket bonds. Cuthbert Heath also underwrote the first risk based on American soil at Lloyd’s, when, in the late 1880s, he arranged a reinsurance treaty for the U.S. branch of an English company, according to Lloyd’s. Mr Heath was also responsible for single-handedly boosting Lloyd’s reputation in the United States through his handling of claims from what was one of the country’s most costly insurance disasters, the San Francisco earthquake and fire.

¹¹ Munich Re/Reinsurance—‘The Reinsurance of Natural Catastrophe Risks’, Munich Re website, www.munichre.com

The Heath syndicate was a leader in earthquake insurance at Lloyd's and so had heavy exposure to the disaster. One of the problems at the time was that there were some policies covering fire only, others earthquake only, and others still covering fire if caused by earthquake. Many insurers disputed claims on the grounds that they originated from causes not covered.

Mr. Heath dispensed with any such excuses. According to his biography, he simply cabled his agent in San Francisco: 'Pay all our policyholders in full, irrespective of the terms of their policies.' One of Mr Heath's most important contributions to the market was his introduction of the notion of excess-of-loss coverage. Shortly after the San Francisco earthquake, the Hartford Fire Insurance Co. sent representatives to London from Connecticut to see whether Mr Heath could help protect the insurer against losses from a recurrence of the quake. Mr Heath's solution was excess of loss cover, whereby the direct insurer would pay reinsurance premiums only for losses above an agreed figure, up to an upper limit. Thus the loss was spread both 'horizontally' among different underwriters and 'vertically' so that neither the direct insurer nor any reinsurer was exposed to too great a loss.¹²

When Cuthbert Heath developed the concept of Excess of Loss coverage, he never intended to cover every day working losses; rather he did so with the intention of covering disasters causing losses above an agreed amount. It was because of this ingenious concept that the London reinsurance market grew and prospered because, with excess of loss coverage, London was truly able to provide the global insurance market with the ability to spread risk, the fundamental concept of insurance. The abuse of this simple but ingenious coverage would later lead to massive 'spiralling' problems in the Lloyd's market, which first led Lloyd's underwriters to Bermuda for some relief, beginning in the late 1960s.

Meanwhile the people of Bermuda continued to experience major changes to their way of living, as the Bermuda Electric Light Power and Traction Company began to feed electricity to the island. Bermuda got its own coat of arms in 1910, thereby giving its people a sense of their own identity of going 'whither the fates might lead' as evinced by their adoption of the motto, QUO FATA FERUNT. The Elbow Beach Hotel opened in 1912. The Bermuda Trade Development Board, predecessor to the Department of Tourism, was formed in 1913, to try to bolster tourism on the island. Also, in 1913 work began on construction of Bermuda's first hospital, the King Edward VII Memorial Hospital.

Change continued apace, in all spheres, both at home and abroad. World War I broke out in 1914 and several men from Bermuda went to fight in a war that was not their own. As a direct consequence of that war, in April 1915 the USS *Arctura* established the first American base in Bermuda to maintain American navy submarines patrolling Bermuda waters. In 1919 teachers seeking their rights formed the first union in Bermuda, called the Bermuda Union of Teachers. In 1920, by an act so controversial that it has never been fully explained or resolved to this day, the government imposed compulsory land purchase orders and removed black families from Tucker's Town to allow a hotel and golf course to be developed there. Then in 1923 Bermuda saw not only the opening of the Bermudiana Hotel but also the arrival of a man who was to change the course of political and racial history on the island, namely Dr E.F. Gordon, from Trinidad.

¹² *Business Insurance, At the Millennium, Special Issue, 'Lloyd's History intertwined with America's'* by Carolyn Aldred and Edwin Unsworth, p. 17

CHAPTER 3

Sir Henry Tucker and the 1930s

Tucker and the Group

Henry Tucker, a white Bermudian, had to be sent abroad for higher education because in his time the level of education did not go beyond secondary school in Bermuda. Young Tucker, having tasted the outside world, came back to Bermuda and found himself by no means satisfied working as a clerk in the freight department of Watlington & Conyers, which he did from 1922 to 1923. So he and his close friend Clarence Cooper went in search of fame and fortune and took off thinking there could be no better place in which to start than the booming oil fields of Oklahoma. Instead their dreams were quickly dashed and the two were obliged to go back home.

Upon his return Tucker was once again confronted with the frustrating search for a job that would earn him a living yet also slake his thirst for adventure. Lacking the family advantages of some of his friends, like the Coopers, Trimingham, Veseys, and Butterfields, he found himself unable to get placed on Front Street, Bermuda's premiere business district at the time. Instead he became a teacher at Saltus Grammar School. He readily reckoned he was not much good as a teacher but at least he was serving his old Alma Mater.

It was also at this time that Tucker met his wife, Catherine Barstow, a nurse who was vacationing in Bermuda. Tucker was smitten—most young Bermudian men got excited when new young women appeared on the island. After Miss Barstow went back to the States, Tucker kept up a long distance courtship of her, a love affair that may have prompted him once again to leave his island home for the USA. This time he stayed away for nearly a decade, gaining invaluable experience 'in and with many banking and brokerage firms'.¹³

By 1927, having established himself as a stockbroker in New York and being married with two children, Tucker had no intention of returning to Bermuda. He thought he had things made to his every liking. Then came the Crash and the crippling effects of the Great Depression. By 1929 the firm he worked for had gone bankrupt. His hopes and plans had come to nothing. Tucker set out to begin his own business but the Depression had swept away the financial landscape of New York. Tucker no longer saw any future there. He was stranded in a luckless foreign land. He began to grow homesick but he knew there was no way he could return to Bermuda without a job, especially now that he was a family man.

Then in 1930, as Bermuda was getting its first radio station and *The Bermudian* was being published for the first time, its economy was dealt a severe blow when the US promulgated tariffs on agricultural produce that virtually wiped out what little was left of the island's agricultural economy.

Nevertheless it was in 1934, shortly after the agricultural industry all but vanished from Bermuda, that Tucker successfully negotiated a reasonable salary with the Bank of Bermuda, and returned with his new family to work at the Bank as its Secretary. In this senior position he began

¹³ J. Randolph Williams: *Man of Stature, Sir Henry Tucker*, Chapter 2, 'The Maturing Years', p. 14

to flourish. He travelled the world, regaling the virtues Bermuda had to offer, and was later to be known as the Father of International Business in Bermuda.

Tucker knew that Bermuda could become an important world financial centre, because of its location, its stable government, and its solid infrastructure. Pulling from the resources that were available on the island, he set off upon a marketing tour to sell the benefits of Bermuda to wary investors overseas. The world was in a terrible state at that time, with the Great Depression weighing heavily on the minds of many.

Agriculture having been brought to a halt, Bermuda's only means of income was tourism. Tucker saw that this also was at risk of collapsing under the weight of the Depression and that the Island desperately needed another pillar upon which to rest its fate. At the same time he realised that the Bank of Bermuda had grown as much as it could within the local community. Taking the motto of Bermuda as his guide, *QUO FATA FERUNT*, 'Whither the fates may lead', Tucker set out on a worldwide tour, promoting the stability and economic advantages of Bermuda. It was an opportune time. Whereas most parts of the world were suffering a deficit balance of trade at the time, Bermuda was showing a positive balance, which presented potential investors with a very good incentive to put money into Bermuda. Tucker capitalised on the fact and on every other favourable characteristic of his island home.

Tucker had made many invaluable contacts during his years in New York. Deciding it was time to call in some favours, he used his connections there and around the world to bring the first exempted company to Bermuda. In those days no company could incorporate in Bermuda without a Member's or Private Bill to that effect first being passed into law that allowed it to commence business. Elbon Limited, formed by Robert and Meta Noble, was incorporated in Bermuda by an Act of Parliament on 8 July 1935. The company name was simply the owners' name reversed. Tucker introduced the Nobles and Emma Maurer to Reginald Conyers of Conyers Dill & Pearman, and a considerable amount of work was done to create this new vehicle called an 'Exempted Company'. Elbon was a subsidiary of the large candy company, Life Savers Inc., with capital set at not less than £5000 and not more than £500,000. As was the norm, its activities were restricted to off-Island ventures. Again in conformity with local legislation, all its banking business was to be transacted through Bermudian banks, and commercial banking of its own was forbidden.¹⁴

According to Tucker, it was not until 1936 that one particular account, the International Match Realization Company, opened his eyes to the possibilities for Bermuda on the worldwide financial stage. Tucker recalled that—

Ivar Krueger, a Swedish industrialist and financier nicknamed "the Match King", owned about 400 companies. When he died bankrupt in 1932 the Irving Trust Company of New York was made the trustee. Sir Bayard Dill, senior partner of Conyers Dill and Pearman (CD&P), a leading law firm in Bermuda, said that Irving Trust was able to liquidate almost all of Krueger's assets, but there were four of his assets that they did not want to liquidate because they could not get much money for them and because they knew the US government would tax them for whatever they did get, so they sought somewhere else to incorporate the companies.¹⁵

The Royal Gazette, Bermuda's daily newspaper, records Sir Bayard Dill as saying that 'in 1937, Conyers Dill & Pearman was instructed by prestigious Wall Street law firm Cadwallader, Wickersham and Taft, to set up a company. The company, International Match Realization Company Ltd., was to go into the New York market and buy up Krueger's remaining assets.'¹⁶

¹⁴ Gordon Phillips: *First, One Thousand Miles, Bermudian Enterprise and the Bank of Bermuda*, Chapter 4, 'A World at War and Exempted Companies', p. 125-126

¹⁵ Taped interview of Sir Henry Tucker by John Barritt, 21 August 1976

¹⁶ *The Royal Gazette*, International Business, 'So sweet for Lifesavers', 21 January 1988, p. 29

At the time of Krueger's bankruptcy, the value of the assets of the International Match Company was very small. As a matter of fact there was really nothing for the shareholders at all. There were debentures with a face value of some 95 million dollars left in the company, worth about five cents on every dollar. However, the liquidators who took over the company thought it probable that the debentures would increase in value at a much later date and knew that if this happened the American shareholders would be assessed a huge capital gains tax. Therefore they went in search of a jurisdiction that would not impose such a big tax penalty on the shareholders.

It so happened that all this was going on at the very time that Tucker and others were looking to put Bermuda on the international map and that international networks were becoming more aware of Bermuda. For example, Imperial Airways, later to become known as first BOAC then British Airways, had started the first regular commercial airline service between Bermuda and Port Washington. So it need come as no surprise, in retrospect, that Bermuda was found to be such a place as the liquidators for Irving Trust were seeking. They saw that by forming the company in Bermuda they would save the shareholders a significant amount of money.

Eventually the company was liquidated, after several years in Bermuda, but by that time the debentures had indeed risen, to 45 cents on the dollar. Bermuda looked like a hero and in due course this outcome opened the door for many more trust transactions in Bermuda.

The International Match Realization Company was a turning point for Tucker and his associates. Tucker emphasised that this landmark company would not have been possible if he and others had not appreciated the importance of the lack of direct taxation in Bermuda. The company opened his eyes, and the eyes of those who worked alongside him, to the possibility of attracting business to Bermuda from other countries.¹⁷

According to *The Royal Gazette*—

'The publicity generated in the wake of the International Match Co. really made Bermuda's name as a place to do international business, Sir Bayard said. 'You can see that International Match Realization Company would have a tremendous number of contacts and so that naturally brought in an awful lot of people who were anxious to experience the same sort of good fortune.'¹⁸

The International Match Realization Company also brought into vogue the term 'exempted company'. According to Sir John Plowman, in a speech delivered at the annual General Meeting of the International Companies Division of the Bermuda Chamber of Commerce, on January 29, 1981—

'The Companies Act of 1923 when originally enacted provided that not more than two-fifths of the shares in a Bermuda Company could be held by other than British subjects and also required that a Bermuda company's register should record the nationality of each shareholder. During the thirties the advantages potentially offered by Bermuda as a location for "offshore" activities began to be appreciated by foreign concerns. As the operations of an offshore company established in Bermuda were in principle of little concern to Bermuda itself, it was only logical that the particular provisions of the Companies Act incorporating offshore companies at that time typically exempted the company from the two requirements above and hence the terms "exempted company" came into being.'¹⁹

As a direct consequence of the International Match Realization Company transactions, legislation was passed to allow the Bank of Bermuda to open a Trust Department. Tucker hired the Manager of the Chase Manhattan Bank to run the department because he realised Bermuda was about to add a new pillar to its economy and he wanted to make sure of going about it in the right way.

¹⁷ Taped Interview of Sir Henry Tucker by John Barritt, 21 August 1976

¹⁸ *The Royal Gazette*, International Business, 'So sweet for Lifesavers', 21 January 1988, p. 29

¹⁹ Sir John Plowman, speech at the Annual General Meeting of the International Companies Division of the Bermuda Chamber of Commerce, Thursday, 29 January 1981

It was also at this time that Tucker decided to enter the Bermuda political system, which at the time was what Tucker termed 'representative Government'.

'Under this system, individuals were elected on a personality basis as there was no such thing as party politics. This form of government had been established in 1620, when Bermuda's first parliament sat. Each of the nine parishes had four individual representatives, making a house of Parliament consisting of thirty-six members. These individuals represented their own constituencies (parishes) and did not collectively pledge to support any particular policies; there were, those individuals, many of whom were the monied established whites who were also known as the "city fathers" (and, one may add, a host of other, negative names). The interest of the Island (which was technically their own interest) was their primary concern.'²⁰

At the same time as Tucker entered politics, he was also appointed manager of the Bank of Bermuda. He realised that if he wanted the bank to grow, it would have to expand overseas. He began to make trips overseas to seek trust business for the island and was pleasantly surprised by the need of exempted companies to find a favourable tax and regulatory environment that would allow them to expand globally. Tucker was very receptive to the prospect of exempted company business coming to the island and began working to make sure the right image of Bermuda was being portrayed.

According to J. Randolph Williams in his book *Man of Stature*—

'Just prior to the war, the Management of the Bank realized that Bermuda had much to offer persons abroad who wished to establish investment accounts, trusts and companies in Bermuda. So much so that in 1939 a new document was published containing the background of various companies acts, and the basic Trustees Acts, together with a foreword which explained, in some detail, the facilities that were available. This book was an immediate success, and it proved to be of the greatest value in stimulating foreign business... In the beginning, the emphasis was on the absence of direct taxation in Bermuda. After the war, this area was strongly emphasized with unprecedented impetus, and the concept of various businesses exempted from taxation in their home areas and based in Bermuda was founded.'²¹

Realising that he would not be able to successfully promote the island on his own, Tucker enlisted the support of his rival, the Bank of Butterfield. He had the foresight to recognise that the opportunities opening up for Bermuda needed to be handled professionally and cooperatively between all the key financial and regulatory bodies on the island. He knew he needed the total commitment of the business community so that he could deliver a strong and coherent proposal to the world as to the benefits of doing business in Bermuda. Tucker was able to rally the support of the directors of the Bank of Butterfield, and of the partners of the Appleby, Spurling Law Firm and of his first cousin, James Pearman.²²

Joined by Pearman, a lawyer with CD&P and director of the Bank of Bermuda, and by Bill Wilson, assistant trust officer, Tucker travelled extensively overseas. The threesome became known as the Group. The Group promoted the benefits, to overseas companies in Bermuda, of a lack of direct taxation. The Group also emphasised the additional benefits of escaping the restrictive rules and tax laws that companies were subject to in Britain and the United States. In the late '40s and through the '50s, thanks to the Group's groundwork plus Tucker's foresight, and the help of many law firms and the Bank of Butterfield, international business became, as intended, the second pillar of the Bermudian economy after tourism.²³

²⁰ J. Randolph Williams: *Man of Stature, Sir Henry Tucker*, Chapter 4, 'Member of the Colonial Parliament', p. 32

²¹ *ibid.*, Chapter 3, 'Ambition Abounding', p. 28

²² *ibid.*

²³ *The Royal Gazette*, International Business Special Supplement, 21 January 1988, 'How International Business Evolved', p. 27

²⁴ J. Randolph Williams: *Man of Stature, Sir Henry Tucker*, Chapter 8, 'Long Live the Banks', p. 101

J. Randolph Williams tells how 'Jack (Henry) Tucker and his banking officers made periodic visits to principal international money centres. His intention was to make Bermuda the Switzerland of the Atlantic, and he was extremely successful in doing so.'²⁴

No sooner had Tucker begun to market the island around the world than World War II broke out. In 1939 Bermuda joined Great Britain and the rest of the Commonwealth in taking up arms against Hitler's Germany. As in every country affected, so in Bermuda, the War brought about major social and physical changes.

At the most fundamental level, the very geography of the island was radically altered. Saint David's and the smaller adjacent islands were leased to the United States for the construction of a massive Air Force base that was to play an important role in the Battle of the Atlantic. The price for this defence of freedom was the loss of lands, homes, and a way of life that had lasted unbroken since the very first days of settlement. Bermuda paid that price sadly, but willingly and with pride.

The whole climate in Bermuda changed for the duration. Thus the basement of the newly opened Princess Hotel became the British Censorship Headquarters. All mail to and from the US was stopped in Bermuda and searched for hidden messages. And as a result of this censorship headquarters, many spies were caught.

Of more lasting effects were other, more fundamental developments. In 1941 Dr E.F. Gordon, the black Trinidadian doctor who had come to Bermuda in 1923, founded the Bermuda Workers Association, its purpose being put forward modestly enough as merely the pursuit of better benefits and not as the beginning of a trade union movement. In 1944 the political landscape changed profoundly when all landowning women finally received the right to vote. In 1945 the first commercial aircraft, a Pan Am flight, landed on the newly constructed airstrip. The government purchased the troubled Bermuda railway. The law banning motorcars was repealed, despite many protests to the contrary, Henry Tucker being the loudest protestor against motorcars in Bermuda.

Internationally, even the seemingly dry and remote fields of insurance law had seen changes along the horizon during these turbulent years. A case in insurance law had given rise to a landmark judgement. In 1941 the US Supreme Court found in *Helvering v. LeGierse* that a basic criterion of insurance must be whether a transaction included among its elements the shifting and distribution of risk. This was to become the premise the IRS would use in later years to argue that premiums paid by an insured to a wholly owned insurer did not constitute the shifting and distribution of risk and therefore did not constitute insurance.²⁵ The judgement in 1941 would cast a long shadow.

A confrontation of major significance to the working class Bermudians came in November 1945, when Dr E.F. Gordon went to London to file at Westminster a petition protesting economic and racial conditions in Bermuda. Powerful voices in Bermuda were irate that Gordon had gone to London rather than dealing with the problems locally. Eventually his petition was included in a White Paper debated by the British House of Commons in 1947 but the House decided that Bermuda had to deal on its own with its internal domestic problems.

After the tenseness of the White Paper debates in the House, Tucker decided not to stand for re-election in 1948, perhaps preferring to foster international business as described by Gordon Phillips—

'...both shipping, then beginning to seep through to Bermuda and the largely untapped and unlimited potential in the exempted company business. The Island's much-forecasted potential as an international business centre became a reality. The message, at the time, to companies seeking relief from tax penalties at home, constantly reiterated by Bank officers and other private firms to their opposite numbers in Britain and the United States.... Tucker's brief sojourn from politics gave him the opportunity, against keen competition from Butterfields (the Bank of Butterfield), of turning Bermuda into the 'Switzerland of the North Atlantic...'²⁶

²⁵ P. Bruce Wright and F. Roy Sedore: 'Despite IRS attempts, captive wall remains intact', September 1991

²⁶ Gordon Phillips: *First, One Thousand Miles, Bermudian Enterprise and the Bank of Bermuda*, Chapter 4, p. 125-126

CHAPTER 4

American International Company

'CV' Starr

Well before Henry (Jack) Tucker started to set up the infrastructure for Bermuda to become the 'Switzerland of the Atlantic', a young American named Cornelius Vander (CV) Starr was seeking to find his calling in life. After serving his country in World War I and seeing death all around him, 'CV' developed a zest for life. He wanted more than just to have survived and so in 1919, at the relatively young age of 27, he set out for the Far East. Some say he only had 330 yen in his pocket. Yet a lack of money and contacts did not deter this young man from following his instincts.

Feeling himself to be at once at home in Shanghai, Starr formed a fire and marine insurance agency called American Asiatic Underwriters, the first of several companies which were later to become the American International Group (AIG). Starr went on to prosper in the Far East, as he capitalised on shortfalls in the insurance market. In 1920 he became the first to insure the lives of Chinese citizens. Even without the sophisticated technology and modelling tables of today, Starr still managed to run a successful operation. He relied on natural abilities, called business sense and gut instinct, to keep his operations profitable.²⁷

Within ten years of arriving in the Far East, Starr had established himself as a major player and had offices and agencies across China and the Far East. By the end of his twentieth year there Starr was brushing elbows with some of the Far East's most elite business leaders. He was even given the honour of being called a 'laopan', which meant that he was regarded as a leading Shanghai businessman.

Knowing from first hand experience how debilitating the effects of war could be, Starr diversified his business and established offices strategically, in areas that would allow him to remain operational even during the worst of times. Starr was 'hedging' the performance of one economy against that of another, so as to keep himself whole. In 1939, when World War II broke out, Starr moved his headquarters to New York.

As Europe became engulfed in war, Starr seized the opportunity that arose to expand into Latin American markets after several European insurers who had dominant positions there contracted their overseas operations. Thus began AIG's trademark of capitalising on shortfalls in the insurance market. In 1940, without any real competition, Starr was able to open offices in half a dozen South American countries and established a regional headquarters in Cuba. By the end of the war, premium income from his Latin American region had far surpassed his income from the Far East.

Starr continued to diversify his portfolio of companies and to extend into more and more regions. By 1946 he had expanded into Japan and Germany by insuring the personal property of American soldiers. By 1947, he saw that his operations had grown so much as to need the estab-

²⁷ *The American International Group, 50 Years in Bermuda, a brief history, 1997*

lishment of central offices for his major regions. Within five years he had completely restructured the entire company.

All US business was to be controlled from his New York headquarters. Being uneasy about Cuba, given the instability of its economy, he sought another location from which to control his non-US operations. He ruled out Panama because of language barriers and because of the Panamanian legal system.²⁸ Instead it so happened that Henry Tucker's efforts to establish Bermuda as a credible offshore jurisdiction were about to get an unexpected boost. Searching for a suitable place in which to base his international operations, Starr decided upon Bermuda. Bermudian law was based on British law, a law that he was familiar with from his days in Shanghai. Bermuda offered him a tax-free environment. The standard of living was good. The island enjoyed close proximity to the United States. So in 1947 Starr arrived on Bermuda's shores to establish Bermuda's first international insurance company.

At that time there was no other such company operating on the island. Starr was not deterred. After all, in 1919 he had established the infrastructure for life insurance in Shanghai. The establishment of a location in Bermuda would not present any problem for Starr. In order for his company to operate in Bermuda, a special Act of Parliament had to be passed. On 16 December 1947 the American International Company, Limited Act 1947 (Bermuda 1947:68) was passed and the company was incorporated on 20 December following.

American International Company held its first board meeting in Bermuda on 14 January 1948. At that meeting Starr decided he wanted two companies established to handle non-US business. American International Overseas Ltd became the parent for all the general business, while American International Reinsurance Company (AIRCO) was incorporated to handle the life insurance companies in the Far East, to manage real estate investments and to act as a professional reinsurer for both the American International group of companies and for third party risks.

Just about everything Bermuda's international insurance industry has since become can be traced back to that decision by Starr in 1947 to headquarter his non-US interests in Bermuda. AIRCO was the first major, international, publicly owned company to be managed entirely from Bermuda and had a number of attributes that are still to be found today in the very largest Bermuda based insurance companies.²⁹

According to Howard Rose, in an article for the *Bottom Line* magazine, May 1993 issue—

'American International Group, Bermuda, gained significant control of international business as the Cuban political scene became increasingly unstable in the early 1950s. AIG went on to provide much needed office employment and an early pool of insurance know-how, on which the Island's fledgling international insurance industry could draw. These early offshore recruits also became a welcome source of foreign exchange as the wartime British and American naval bases were wound down.'³⁰

²⁸ *The American International Group, 50 years in Bermuda, a brief history, 1997*

²⁹ *ibid.*

³⁰ *Bottom Line*, May 1993, 'Capturing the Market' by Howard Rose

CHAPTER 5

Oil Companies Follow Suit

Offshore entities formed by Standard Oil and Shell

Long before the world at large even knew that the word ‘captive’ had a special meaning in terms of the insurance industry, the oil companies were already using the ‘captive’ technique to consolidate their global insurance programmes. The structure of these deals would form the basis of a concept that was about to catapult into the worldwide insurance arena and that would put Bermuda firmly once and for all on the map of international insurance. The origins of this concept were developed first by Standard Oil of New Jersey and then by Shell.

According to Ron Massey, a retired Senior Vice-President of OIL Insurance Limited and a former risk manager for Exxon until his retirement in 1984, Ancon was the first ‘captive’ ever to be set up anywhere. Though the actual term ‘captive’ was not coined until many years later, Ancon was formed as early as 1942 and was the first offshore entity of its kind to be set up by a major US company. Headquartered in Panama but run out of Cuba, its purpose was to insure Standard Oil’s tanker fleet during World War II. Massey surmises that Ancon was formed because commercial insurers would not provide cover against war risks. Therefore, after much pondering, the senior management of Standard Oil came up with the strategy of setting aside reserves against future losses and so the concept of ‘captives’ was originated.³¹ Ancon would eventually come to Bermuda in the 1970s, when several oil companies set up captives.

Some years after Standard Oil established the ‘captive’ concept, others in the oil industry began to see the benefits of moving ‘offshore’ and owning a captive. One such potential parent company was Shell, whose urgency for a captive was driven by the need to find a way to invest the pension funds of a growing global workforce, without the limitations that the Dutch regulatory authorities were trying to impose.

In 1947 the Royal Dutch/Shell Group established a pension fund for Dutch expatriates of the company and shortly afterwards Shell International in London established another such fund for British expatriates working outside the UK, thereby broadening the investment opportunities available to the funds and enhancing the pension benefits to individual members when they retired. In 1950, Shell International also established a marketing company, Shell Bermuda, to service the motor vehicle trade, cars having been permitted since 1947.

With a substantial corporate structure, and some thirty employees in Bermuda, it was only a matter of time before Shell International established a captive insurance company on the island. Petroleum Insurance Limited (PIL) was incorporated in 1956, for the purpose of co-ordinating Shell’s risk management strategies around the world. Depending upon the nature of the risk, Shell would retain a substantial first layer and then re-insure the remaining risk, usually through Lloyd’s while using Sedgwicks as brokers.

³¹ Telephone interviews with Ron Massey, 16 April 2002 and Jack Whitelaw, 14 June 2002

In some countries Shell was compelled to buy locally. However in most places Shell was allowed to buy insurance wherever it deemed suitable. In these instances it was easier for the captive to consolidate risks in Bermuda and then reinsure them in the London market. On occasion Shell would retain 100 per cent of the risk within its captive, depending on the nature of the risk. With the advent of the captive, Shell began the practice of self-insuring a large portion of its risk, because the risks could be monitored from the captive

Quite apart from any tax considerations, there were clearly benefits such as the retention of cash within the Shell Group, the utilising of its purchasing power on the insurance markets, and the use of risk management as a tool to improve safety practices, this being an issue of critical importance for the oil industry. Working conditions in Bermuda were also favourable, whether in respect of easy communications, or of the island's unique location between Europe and North America, or of its political stability.³²

³² Interviews with Bob Stewart, 17 April 2002 and 12 February 2003

CHAPTER 6

William 'Bill' Kempe

A man fresh from War wants more for Bermuda

Although companies were slowly coming to the island, Bermuda was not what one would call a sophisticated business centre. There was very little in the way of public transportation except for the train, known affectionately to Bermudians as 'Old Rattle and Shake', and most people used bicycles, although cycling was far from being an idyllic way to travel and could in fact be treacherous, owing to the lack of paved roads. Many roads were simply layers of crushed limestone, and were frequently ruined by horses' hooves that left huge potholes. It was not uncommon for a cyclist to be flung from the saddle and for groceries along with any other baggage to be pitched out of the open wire baskets before and behind.

According to Molly Smith, who worked as conveyancer and secretary for Appleby Spurling & Kempe, those were quiet times professionally, both for the law practice and for the whole business community on the island. Life was peaceable and the pace of Bermuda's business world was, shall we say, relaxed. It was usual for the gentlemen to go off to golf or to fish in the afternoon. Rarely was business conducted after two p.m. Life and commercial affairs were much more civilized. And quality was emphasised more than quantity.

In 1946, following his war service, Dudley (later Sir Dudley) Spurling rejoined Major Appleby and they began the process of modernising their law firm. Spurling had originally entered the firm in 1938 but had left to join in the war. Upon his return he brought in much needed new typewriters. Prior to that his secretary had used a very old machine and typed on it with only two fingers. One can only imagine the disdain she must have felt for the elaborate modern contraptions. Anticipating a surge of new business, Spurling actively sought new secretaries who could help him to update the firm.

There were no photocopiers in those days. If several presentation copies of a document were needed, as distinct from carbon 'flimsies', they had to be typed individually, one after another, over and over again. For a larger number the secretaries turned to the 'monster', which copied by means of a gelatine stencil. Of course the copy for the stencil also had to be typed. The ink splashed everywhere and the ladies had to cover themselves up, to prevent it from ruining their clothes. The firm bought a large overall in which to swathe the stencil operator from top to toe. However her face and hands would still be smudged and messy. As a result, the 'monster' was nobody's favourite and everyone dreaded having to use it.

Employees were required to put in a five and a half day week, plus overtime when required, and were granted two weeks annual holiday. They were also required to come to work professionally dressed.

There were no trade unions. For industrial disputes, His Excellency the Governor would call upon an Arbitration Tribunal, which had its own official Clerk. Appleby was appointed to be the Chairman of the Tribunal and Ms Smith was appointed as the Clerk. She was required to transcribe the workers' discontents verbatim and says that she had great difficulty in understanding what they were saying, let alone in trying to write as fast as they spoke!

By the time William (Bill) Kempe came back from military service around the end of 1948, the times were changing. The Bermuda railway had already been dismantled and two women, Mrs

Hilda Aiken and Mrs Edna Watson, had been elected as Members of Parliament. Yet as he sat at a wobbly desk (balanced carefully by law books) in the back of a room at Appleby Spurling, Kempe was struck by the fact that there was nothing much going on around him. An adventurous type, Kempe brought a certain edge to the office. Having sailed his yacht *Chicane* all over the Atlantic, he thought there was much more in the way of opportunities for the island of Bermuda than was presently imagined.

Once he had been called to the Bar in January 1949, Kempe commanded enough credibility to go off on his own and seek the business opportunities for Bermuda that he knew lay out in the world. He got his first revelation around 1951 or '52, when he went to London on behalf of clients and became aware of the tremendous opportunities waiting for Bermuda, a place that must have seemed like paradise, by comparison with the constraints and the desolation that oppressed so many troubled parts of the world in the aftermath of World War II.

When Kempe returned from his trip to London he called upon his colleague Hal Butterfield, at the Bank of Butterfield, to get from him a list of banks and agencies that could be approached in London in order to establish contacts.

Not wanting to waste any time, Kempe set up appointments with the banks named on the list given to him by Butterfield and then set out across the Atlantic again, this time to try his luck. First he visited the big, standard and most obvious banks, like Lloyd's. Not only did they lack the slightest comprehension of what he was trying to sell them, more alarming still was the fact that they had no idea where Bermuda was and didn't seem to care either. He realised he was knocking on the wrong doors and went back home.

Despite the disappointing results of that first round, Kempe refused to accept defeat. He decided he needed access to the managers of more sophisticated, innovative and internationally minded banks, rather than making fruitless calls on the obvious traditional houses. So he went back to the Bank of Butterfield for another list of contacts. This time he focused on Merchant Banks.

In 1954 he set off yet again for London, accompanied by Dudley Spurling for support. They were able to get into the Merchant Banks and with these at last their meetings proved to be very productive. The tone and responses were very much better and almost at once the discussions bore fruit. Kempe and Spurling saw business resulting from their efforts.

CHAPTER 7

David Graham

Positioning Bermuda for international business

By chance one day, in these same times as when Tucker and Kempe were trying to put Bermuda on the world's financial map, a senior international business lawyer by the name of David Graham was diverted to the island when the aircraft on which he was flying developed mechanical problems. Graham and his wife were on their way back to England after a disappointing trip to the Caribbean, where they had been looking for a home. Much to their chagrin they had seen nothing that they liked. Now, finding himself as he thought stranded in Bermuda, for four days, while parts for the plane were flown in, Graham looked up an old friend and fellow Oxonian, David Huxley, who happened to be Bermuda's Attorney-General.

Not for the first time and not for the last, the appeal of Bermuda called on the passer-by to return. Once back in the UK, Graham found he could not shake Bermuda from his thoughts, so he packed up his family, the nanny and their dog and returned to Bermuda for a holiday. Roger Crombie records how they 'rented a house next door to Kenneth Trimingham. Huxley again urged Graham to stay in Bermuda, but Graham declined, saying he could not afford Bermuda without a job. At the same time, by coincidence, the Senior Partner of a London law firm, Botterell & Roche (now Norton, Rose, Botterell & Roche), in Bermuda on business, introduced Graham to Pearman. Graham asked Pearman for a job.'³³

However when David Graham decided he wanted to settle in Bermuda it was still a very quiet place. According to Gordon Phillips—

'as though in a time warp, Bermuda in 1948 lay becalmed and impoverished. There was little real wealth, and whatever wealth did exist was tied up in about six families. Therefore it is no surprise that when Graham first applied for a post at Conyers Dill & Pearman shortly after his arrival in Bermuda, James Pearman himself wrote regretfully that there was little enough work for the two partners. They usually left at 4 p.m. each day for bridge and golf and life was not demanding.'³⁴

After a few months' holiday, and having been turned down by CD&P, Graham and his family finally decided to pursue a new life in South America. 'Their passage was booked, but Graham had reckoned without the kindness and acuity of his temporary next-door neighbour, Kenneth Trimingham. Trimingham had "reintroduced" the possibility of Graham's employment to both Conyers Dill & Pearman and to another firm, the recently consolidated Appleby Spurling & Kempe.'

According to Roger Crombie in his book *Conyers Dill & Pearman*—

In April, as the Graham's were getting ready to leave Bermuda, Pearman offered Graham a year's trial "at a modest salary". Graham was initially turned down by Immigration, for what reason we may never know, but on his second application he was approved. And so, in the autumn of 1949, Graham became the first expatriate employee of Conyers Dill & Pearman.

³³ Roger Crombie: *Conyers Dill & Pearman, A History*, Chapter 19, 'Captive Insurance' pp. 129–134

³⁴ Gordon Phillips: *First, One Thousand Miles, Bermudian Enterprise and the Bank of Bermuda*, Chapter 4, 'A World at War and Exempted Companies', p. 125-126

‘The firm he joined was small. The volume of work was less than impressive. The firm had a total of eight international clients in 1949. Under the circumstances, it is hard to see how Dill and Pearman were making much of a living, yet when Graham came on board, a secretary was taken on for him. Perhaps the Senior Partners were expecting a miracle—which, it could be argued, is exactly what happened.’³⁵

Viewed by many who knew him as a very strange man, Graham was nonetheless brilliant and in hindsight it can be seen that his thought processes were way ahead of his time. Perhaps that’s why many could not understand him. Graham was one of the first to say that ‘God blessed Bermuda with the perfect geographic location and if it doesn’t grow and take off, Bermudians are just dumb.’³⁶

Indeed, as Gordon Phillips tells us, it was through his association with Conyers Dill & Pearman and his contacts in the City of London that—

‘...David Graham was instrumental in initiating the concept of international business in Bermuda. Others such as William Robert Kempe were equally well equipped and very able to put it all into practice, but it was Graham who beat the bounds first with Henry Tucker, drumming up business in the United States, lecturing management associations and generally trying to win friends and influence people. Entirely at their own expense, some remarkable individuals staked all on their undoubted abilities and, with the banks, took upon themselves the risks and inescapable costs of bringing business to Bermuda.’³⁷

³⁵ Roger Crombie: *Conyers Dill & Pearman, A History*, Chapter 11, ‘Long distance Information’, pp. 70–77

³⁶ Interview with Dr David Saul, 14 May 2002

³⁷ Gordon Phillips: *op.cit.*

CHAPTER 8

Butterfield & Steinhoff

The call for an accounting firm is answered

While the lawyers were busy trying to bring international business to the island, the accountants soon foresaw that if they did nothing to prepare for the day when the lawyers succeeded they themselves would lose substantial business opportunities. According to *Count to 50*, KPMG's special report celebrating its 50th anniversary in Bermuda, Bermuda was a much different place as follows—

'From today's perspective, it is difficult to imagine a time when Bermuda did not have legions of accountants, lawyers, and international companies—yet they were few and far between as the second half of the 20th century began. Individual professional men—and they were all men in those days—plied for their trade at the start of the 1950s in a relaxed and gentlemanly fashion.'³⁸

In 1949 Dudley Butterfield, founder of Butterfield and Steinhoff said, 'I had my accounting degree and I could see that soon Bermuda would need an accounting firm. I had no idea it would end up the way it is today.' Butterfield, a professed entrepreneur, had no intention of working in the accounting industry, he just wanted to start companies, which he considered to be his forte.

As luck would have it, Butterfield was at a social function in Montreal, Canada, when he met Russell Steinhoff, a Canadian chartered accountant. At the time, Steinhoff was working with P.S. Ross & Sons, a forerunner of Touche Ross, a large international accounting firm. Butterfield was on the lookout for a bright young individual to run a Bermuda accounting practice, with hotels as its mainstay and a sideline in personal services for Bermuda-based individuals and families. At that same time Steinhoff was looking for a warmer place in which to live. The two were in the right place at the right time and so turned the hinge of fate for the beginning of Butterfield & Steinhoff, Bermuda's first accounting firm.

'The practice began in unexciting rooms in the Pearman Watlington Building on Pitt's Bay Road in Pembroke. At first, Steinhoff was the sole employee, although his wife Mary was in and out of the office when she was not setting up the family home.

'The financial statements for the first year of operation show fees of £3,846 10s 4d and a net profit of £157 8s 9d, showing that Butterfield had been right: the Island could support a small practice.

'The firm was financed by a bank overdraft and a loan from the Bank of Bermuda of £1,474 18s 9d, but the most intriguing feature of those first year statements is a pedal bike, listed as an asset at a cost of £19 9s 7d. "It was the firm's first asset and the way we got around in those days," Butterfield remembers. Steinhoff also had a "massive, four-padlocked metal box", in which he kept confidential documents.

'The firm's early clients were hotels, restaurants and local businesses. Steinhoff, whom Butterfield describes as "a modest, unassuming man and thorough gentleman," would cycle from one client to the next. With the determination of a newcomer, he worked long hours to make the firm a success. Acknowledging that fact, in 1952, the Bermuda Immigration Department gave permission for the firm to practice as "Butterfield & Steinhoff, Chartered Accountants."

³⁸ *Count to 50*, KPMG special report celebrating its 50th anniversary in Bermuda, written by Roger Crombie, and kindly made available to the author by Bob Steinhoff

Steinhoff recalls in a note he left for his files that there were then only a dozen exempted companies set up in Bermuda and that they operated from the offices of local law firm Conyers Dill & Pearman (CD&P) —

‘The Bank of Bermuda was providing bookkeeping services, for some of the companies. Jack Grey (another Bermuda CA) refused to audit anything other than local companies, so I (by default) became the only auditor of exempted companies (in Bermuda) as they were formed.’³⁹

³⁹ *Count to 50*, KPMG special report celebrating its 50th anniversary in Bermuda, written by Roger Crombie, and kindly made available to the author by Bob Steinhoff

CHAPTER 9

1950s and New Horizons

Bermuda seeks Exempted Company business

Tucker and others who shared the vision of putting Bermuda on the map for international business realised early on that Bermuda had to modernise and keep up with the times if it wanted to make any inroads upon that territory—hence the introduction and passing of the Exempted Companies Act of 1950.

According to Gordon Phillips in his book, *First One Thousand Miles*, Panama, Liberia, and the Bahamas had each given a fresh appellation to the then fashionable term ‘tax haven’, but in Bermuda there was considerable reticence to proceed with a business with a reputation that raised misgivings elsewhere. To any respectable individual or foreign company in search of legitimate ways around tax regulations of increasing complexity and ferocity, such as governed the conduct of business in Great Britain and the United States, Bermuda could offer an environment of political and economic stability that, although modest, was sound. No political parties existed in the early 1950s and so there was no political agenda to be served. The decision to grant a 20-year exemption from tax did away with lingering doubts about the long-term nature of Bermuda’s fiscal stability. The *United States Master Tax Guide* for the year 1946 shows that from a corporation with a normal net income before tax of \$51,000, the Internal Revenue Service took 24 per cent, or \$12,240. There was moreover surtax, a tax upon tax, at the rate of 14 per cent on 15 per cent of the basic tax liability. In the example just given the corporation would have to pay an additional tax of \$257, bringing the total tax bill to \$12,497. Such levies made Bermuda look especially appealing. A major impetus was the 1950 Exempt(ed) Companies Act, a calculated bid to bring international companies along by giving them exemption from the rulings imposed on companies that were actually servicing Bermudians. Companies with worldwide sources of income could thereby consolidate their international revenues into one centre so as to avoid, legitimately, the separate tax burdens of many countries. Described as ‘exempted’ or ‘non-resident’ companies, both types carry out their main businesses outside Bermuda.⁴⁰ Conyers Dill and Pearman was instrumental in putting through Parliament the legislation for the Exempted Companies Act.⁴¹

‘In July 1950, the Exempted Companies Act was passed. The Act regulated annual fees, property rights and duties as regards local operation and provided for inspection by the Bermuda Government. The Act also set out a Schedule...of objects and powers an exempt company could adopt in its incorporating Act and so avoid spelling these out verbatim.’⁴²

Gordon Phillips continued—

⁴⁰ Gordon Phillips: *op. cit.*

⁴¹ Interview with William Kempe, 13 February 2002

⁴² Speech by Sir John Plowman on 29 January 1981 to the Annual General Meeting of the International Companies Division of the Bermuda Chamber of Commerce

'Legislation provides that all companies need to be incorporated by Act of Parliament. Exempted companies are thus constituted in Bermuda, and are exempted from requirements of registering the nationality or occupation of any of their shareholders, or amounts paid in share dealings. Vetting before incorporation is granted provides security for clients, and was initially carried out by the Private Bills Committee under the able guidance of Tucker and Vesey, after careful preliminary investigation by the then head of the Currency Board, "Pat" Fitzpatrick.... Unlike other jurisdictions, Bermuda has never been interested in offering its facilities solely for the purpose of tax evasion. Security, stability and convenience always outweighed freedom from tax for countries where political instability was endemic.'⁴³

Mr John Campbell, head of the Corporate Department at AS&K, added—

'Bermuda's Exempted Companies Act demanded that every exempted company have a local quorum—the number required to make the meetings legitimate—of directors who were Bermuda residents. That particular bit of legislation worked in Bermuda's favour in two ways during the 1950s and 1960s. First, it gave the Island some measure of control over the companies coming to Bermuda. Second it fit in nicely with British tax laws of the time.

'Provided it could be demonstrated that the mind and the management of the off-shore subsidiary was in fact in its country of residence, then the profits generated by the subsidiary were free from tax at the parent company level.

'Historically, the mind and the management of a company was accepted as where the board of directors makes its decision.

'If, therefore, board meetings were held in Bermuda, and clearly the existence of a local quorum of directors would facilitate this, then there would be strong evidence to support the proposition that the mind and the management of the company was here.'⁴⁴

The most significant point of the Exempted Companies Act of 1950 included the powers to conduct insurance, but by 1960 there were only ten exempted insurance companies yet registered.⁴⁵ Notwithstanding the small number of exempted companies by the end of the 1950s, it was this Act that provided the springboard for international business. Unless an environment had been created that allowed international companies wishing to domicile in Bermuda to be free of exchange controls and of the requirement for local ownership, as was provided in the Exempted Companies Act of 1950, the growth of international business would never have happened.

At around the time that the Exempted Companies Act was being ratified, a young Bermudian, Cyril Rance, then only 16 years old, presented himself in his cadet's uniform at Bermuda Fire and Marine to be interviewed for a job. He was hired and began work as an office boy on 28 June 1950.⁴⁶

In 1951 American International Company went back to Parliament to have another Act passed that would allow it to purchase property, something that was unheard of until then. The Act of Parliament was duly passed but American International Company did not exercise its right until some twenty years later, partly because it chose not to build until there was a need to do so and partly because there were still a good many wrinkles to be ironed out between American International Company and the Bermuda government. After all, when American International Company started in Bermuda there were only 35 people to be accommodated and so there was no need to put up a building. American International Company simply wanted to ensure a right to build when growth did so require.⁴⁷

⁴³ Gordon Phillips: *op. cit.*

⁴⁴ *The Royal Gazette*, International Business, 'Support service 3, "Legal eagles" provide vital help', 21 January 1988 p. 14

⁴⁵ *Bottom Line*, 'Capturing the Market' by Howard Rose, May 1993' pp. 31–37

⁴⁶ Interview with Cyril Rance, 4 March 2002

⁴⁷ Interview with Ernie Stempel, 17 June 17 2002

In 1954 another young Bermudian joined the insurance industry but this time on the international side. With few other choices on the island and not wanting to farm, the young Joe Johnson got an initial taste for the business world with his summer and Saturday jobs at the Gibbons Company, then a large retail store. One day he answered a newspaper advertisement for a job at American International Company, the big, new international company on the island. Much to his delight, he was called for an interview. Feeling very nervous, Johnson went along and was seen by a lady who was the Head of Personnel. It wasn't until many years later that he found out that she herself had been as nervous as he was because he was the first candidate that she had ever interviewed! Needless to say, Johnson was successful in the interview and on the first of December 1954 he started his long career with what is now known as the American International Group.⁴⁸

⁴⁸ Interview with Joe Johnson, 14 March 2002

CHAPTER 10

Safe Harbour

Ernie Stempel

By the 1950s, Bermuda was on its way to becoming a major centre for the international business sector. It now had lawyers, accountants, and bankers who were geared up for the influx of business and so when it came, the island would be ready. In 1953 C.V. Starr, head of what is now called American International Group (AIG), chose Ernie Stempel to run the Bermuda operations of AIU, the predecessor to AIG. Starr chose Stempel to come to Bermuda to take over the property and casualty business then being written because he thought there was no real expertise on the island to underwrite such business.

Stempel had joined the company in 1938 as an Assistant Manager and held various positions within the company as he worked his way through law school at night. He had no intentions of becoming a career insurance man. But as luck would have it, what began as a means of funding his education turned into a lifetime vocation spanning almost six decades, as Stempel was to remain with the company in Bermuda for over 30 years, until his retirement at age 81 in 1997.⁴⁹

The Bermuda that Stempel remembers was a 'nice, quiet and decent country. There was no traffic. It was a lovely place—really a paradise. Bermuda was very unsophisticated and had no real insurance business.' There wasn't even such a thing as international business. As a matter of fact there was no such thing as American International Group (AIG)—it didn't exist. The company started out as AIU, which was an agency company representing American insurers for their foreign business.

AIRCO (now a shell company) was then the holding company for everything owned by Starr. The largest segment of his business at that time was life insurance. It was actually the parent company for AIG and Stempel ran the whole operation for Starr.⁵⁰

He recalls that he was known as 'Mr Insurance' in those early days. From the time he came to Bermuda in 1953 until about the mid- 1970s, he was a resource for Bermuda's local insurers when it came to international insurance matters. Prior to the arrival of Stempel and American International on the island there was no such thing as international insurance in Bermuda. The local businessmen realised their shortcomings early and made use of Stempel's skills. If they had questions, they came to him, and he proved to be an invaluable help when they were trying to hire overseas insurance personnel, because of the numerous contacts he had developed around the world. He was often able to advise which candidates were worthy of being hired. He was also able to provide valuable technical assistance to the Bermuda insurers when it came to underwriting the new types of risk coming to the island.

Rather than importing lots of expatriates, Starr had a policy of hiring local talent and of training it to run the operations. This proved beneficial for several young Bermudians who were looking to expand their horizons beyond the local marketplace. As a consequence of Starr's policy, young men such as Hal Dale, Joe Johnson and Jack Lancaster became the first Bermudian executives. By the mid 1950s, AIG had over 300 employees on the island.⁵¹

⁴⁹ *The American International Group, 50 years in Bermuda, a brief history, 1997*

⁵⁰ Interview with Ernie Stempel, 28 March 2002 and 17 June 2002

⁵¹ *The American International Group, 50 years in Bermuda, a brief history, 1997*

Not only was AIRCO (now known as AIG) the first insurance company to set up in Bermuda, it also became the first publicly traded company to be conducted solely out of Bermuda.

Butterfield & Steinhoff

About the time that Stempel was setting up on the island another significant development took place. 1953 was also the year when Russ Steinhoff recognised the need to establish Bermuda as a credible accounting centre, and decided to make contact with the Institute of Chartered Accountants in Nova Scotia. He was granted permission to register in Bermuda students in training under the Canadian education programme.

‘The establishment of the training link with Canada was critical to upgrading local professional standards,’ recalls Thomas Johnston, one of the first students brought to Bermuda to join Butterfield & Steinhoff in 1953. The firm had a total of seven staff by then, and had moved to the second floor of 73 Front Street, formerly the offices of Butterfield & Co.

Johnston explains: ‘The Canadian arrangements allowed Bermudians to study in Bermuda for their CA (Chartered Accountant professional designation) and simultaneously allowed the firm to import student audit staff from Canada, who could then continue their Canadian studies while they were in Bermuda.’ When he graduated as a CA in 1955, Johnston became the first Canadian to do so outside Canada.

Moore Stephens

In 1954 Hobart Moore, an internationally recognised tax planner, formed in Bermuda the first international office of his UK accounting firm, Moore Stephens (MS). As a non-Bermudian partnership, Moore Stephens needed from the Department of Immigration special permission that would allow the exempted companies it brought in to engage in accounting and bookkeeping. The clients of Moore Stephens were primarily shipping companies. The firm dealt exclusively with the Bank of Bermuda and CD&P, a relationship that, with Butterfield & Steinhoff’s firm, would change the face of the offshore companies’ world.⁵²

David Graham brings shipping companies to Bermuda

In December 1956 David Graham, partner at CD&P, replied to a letter in *The Times* of London about punitive taxes being levied on shippers by the United Kingdom. The correspondent had complained that under present restrictions British shipping was unable to compete in the oil tanker field with American and Greek ship owners who were flying Panamanian and Liberian flags of convenience. David Graham’s response to the letter pointed out that Bermuda was ‘British’ and had Bermudian companies capable of providing services necessary to help British shipping companies to become more competitive.

As a result of Graham’s letter, and much to his surprise, a flood of enquiries and a direct approach to the Treasury by Graham himself resulted in Pat Fitzpatrick’s, Bermuda’s head of Currency Board, going to London on behalf of the Bermuda government. Bill Kempe and Graham were also in attendance, to provide legal fine-tuning to an agreement whereby a form of shipping different from that carried on in the United Kingdom would be considered as new business abroad and not as a transfer of existing shipping, something at which the Treasury had balked.

‘This co-operation of the private sector, with Government intervention on an unbiased basis, enabled English companies wanting to get into the new and profitable large tanker business to do so in Bermuda.

⁵² *Count to 50, KPMG special report celebrating its 50th anniversary in Bermuda*, written by Roger Crombie, and kindly made available to the author by Bob Steinhoff

The London accounting firm Moore Stephens and the shipping firm of Botterell and Roche in London helped with the registration in the United Kingdom of vessels belonging to English-owned Bermuda shipping companies. When P&O got up its tanker fleet in Bermuda, the Island was really an establishment business.⁵³

'By 1957, the value and importance of exempted companies to the island's financial success was well documented and Bermuda was glowingly referred to as the "Switzerland of the Atlantic", encouraging still more companies to turn our way.'⁵⁴

Castro takes Cuba

Some say Bermuda was booming in the 1950s because of the influx of companies as a result of unrest in Cuba. While the people of Bermuda were busy building their infrastructure in the 1950s, they little knew how soon would companies escaping a communist Cuba need their services.

Fidel Castro and his followers resorted to armed rebellion against the Batista government as early as July 1953 but it was not until New Year's Day 1959 that their victory was complete. The United States recognised the new government a week later but within months the expropriation of American companies' assets and Castro's increasingly close alignment with the Soviet Union led Washington to break off diplomatic relations with the Castro government.

As the situation in Cuba became critical so Ancon, the insurance subsidiary of Standard Oil, while still maintaining a presence in Panama, established a presence in Bermuda and from then on was managed out of Bermuda. Not a moment too soon either, for Castro proceeded to implement the full range of Marxist-Leninist measures, the nationalisation of industry, the collectivisation of agriculture, the confiscation of foreign owned property and the dispossession of the middle class.

While all this was going on in Cuba a young Bermudian named Brian Hall had joined American International Reinsurance Company – Life Division (AIRCO), directly after his graduation from high school in 1958. At that time AIRCO was the headquarters of retail insurance companies around the world and AIRCO Life had subsidiaries throughout Latin America, including one in Cuba, which Hall represented in Bermuda. In 1959, just before Castro began his programme of nationalisation, Hall was thrown into the deep end when his simple job became complex overnight. He had been given the responsibility of overseeing the financial reporting and consolidation of the Cuban subsidiary into AIRCO. He developed a strong relationship with the Cuban office and recalls this as being a very memorable time in his career. American International Life, Cuba, would no longer be recognised as a subsidiary of AIRCO because many suspected that once Castro nationalised the country, foreigners would no longer be allowed to retain ownership in Cuban companies.

Many thought that whereas Panama was fine for headquartering a company they did not want to run their day to day operations from there because of legal peculiarities, political instability and the barrier of language. So instead they chose Bermuda as their new offshore home. Cuban executive staff wanted to get out and some resided at the Bermuda headquarters until AIRCO wound down its interests in Cuba and formed a company in Puerto Rico. Several Cubans resided in Bermuda for a period of time.

⁵³ Gordon Phillips: op. cit.

⁵⁴ *The Royal Gazette*, International Business, 'How international business evolved', 21 January 1988 p. 27

CHAPTER 11

1959 and Major Changes

Niagara Insurance

The efforts of Tucker, Kempe and others were beginning to have a snowball effect. In 1959 a major US reinsurance company decided to set up a subsidiary in Bermuda. J. Victor Herd, chairman of Continental Insurance Companies, and John W. Drye, Jr., a partner in the firm of Kelley, Drye, Newhall and Maginnes and a director of Continental, were the masterminds behind Niagara Insurance Company, later to be known as Continental Reinsurance. Niagara was formed in Bermuda because the senior management of Continental Insurance decided that it would be in the company's best interest if they discontinued purchasing catastrophe reinsurance in the open market and instead funded reserves to build up a bank to pay for such occurrences in the future. Discovering that it was not possible to set up these reserves tax free in the United States, they began to look for a suitable location offshore.

Recounting, from company documents, the reason the company chose to come to Bermuda, former employee Janet Owner explained that 'Bermuda was chosen as the location for the new company because it had a stable government, a stable currency (then tied to the British pound sterling), easy accessibility, the necessary legal, banking and accountancy infrastructure, and no income tax.' On 2 December 1959 a bill was passed by Bermuda's parliament entitled, 'The Niagara Insurance Company (Bermuda) Act, 1959', allowing the company to operate in Bermuda. It was noted in the 1959 annual report that the company was incorporated to participate in the international insurance and reinsurance market.

'The Niagara Insurance Company (Bermuda) Limited was incorporated in December 1959 with an authorized capital and surplus of £2,800,070 and was headed up by Thomas Jones, a long time friend of Herd, who had recently retired from the Insurance Company of North America. The Niagara opened an office on the top floor of Mercury House, Front Street, Hamilton. The first piece of business it wrote was a 25% retrocession from the Continental Insurance Company of the Loyalty First Surplus Fire Treaty, effective January 1, 1960, with a premium portfolio of \$1,141,593.'⁵⁵

Cooper & Lines

Realising that he needed talented young Bermudians on the island, if his vision for establishing Bermuda as a major force in the global financial market was ever to come about, Henry Tucker decided that he would himself take the initiative in persuading those who were useful to come back home.

Young white Bermudian men who had obtained university degrees, but were not from the families that controlled the wealth of the island, sought employment outside Bermuda if they did not want to work in the banks, local insurance companies or government. This was one of the shortcomings of an island that had relied exclusively on tourism for economic growth ever since its agricultural industry was shut down in the 1930s by US tariffs on agricultural produce.

⁵⁵ Interview with Janet Owner, former senior officer of Continental Insurance Company, Bermuda, 12 June 2002

Well aware of this harmful side effect, Tucker immediately compiled a list of all the young white Bermudian men he thought would be glad of an opportunity to take part in a growing Bermuda financial centre. He then went out to get them. One of his first recruits was David Lines, who returned to Bermuda in 1959 with big dreams of becoming rich.

Lines had left Bermuda in 1952, for post-secondary education in Canada. As was the case for most of his compatriots, once they had been accredited with a university degree, Lines saw no reason to go home, given the poor state of the island's economy. Therefore he decided that Canada was to be his country of choice. That was until Tucker came seeking young men who would help to build an arena for international business in Bermuda.

Being an entrepreneur at heart and wanting to show off his skills, Lines jumped at the opportunity. Upon his return, and together with Kirk Cooper he opened 'Cooper and Lines' on the assumption that he would receive lots of accounting business from Tucker. That hope was never fully realised, because Tucker was a strong supporter of Moore Stephens, the British accounting firm that was established on the island, and sent most of his business their way. Lines began to question whether Tucker had brought him home merely as window dressing, simply to show that Bermudians were after all being employed. There were issues between the business world and the Department of Immigration. Lines was not satisfied with what he considered to be 'hand-outs' from Tucker, so he decided to take matters into his own hands. Yet it was not until the 1960s that Lines was able to start gaining the reputation and business in the hopes of producing what he had originally come back to Bermuda in the first place.⁵⁶

'When we let freedom ring...'

By the end of the 1950s Bermuda had without question become a miniature centre for international offshore business. Gone were the days when offices closed at noon, so that a gentleman could go sailing or enjoy whatever might be his fancy was for the rest of the day. Although as in former times it was still the gentleman's place to run the office while the women remained in the background, Bermuda was nevertheless transforming itself into a modern and soon-to-be major offshore business centre.

And yet although, by the end of the 1950s, Bermuda was blooming with growth from overseas, within its own borders there was trouble beneath the surface and age-old constraints and inequalities still held society back from fulfilment of its best promise. Bermuda's population was predominantly black, but life was still very much segregated along the line of colour and to the disadvantage of the majority. However the black population was quietly working behind the scenes to integrate the society of the island. Young, well educated blacks, who had gone home as graduates of universities abroad, made their comparisons with blacks in other parts of the world who had already begun to claim racial equality for themselves.

There was something appropriately modern about the place chosen as that in which one of the most crucial moral and political issues of the time was now to be addressed. That place was none other than the cinema, the place where so many of the most pressing questions of modern life are addressed in vivid, graphic and unconventional ways. In 1959 a group of such young Bermudians held a non-violent boycott to protest segregation of the audiences in the cinemas. The cinemas were closed for a while but then, after four weeks of quiet protest, the cinemas opened again—desegregated. From now on, the movies would not be only in black and white.

So not only was Bermuda undergoing significant changes as a result of initiatives and needs beyond its shores, there were significant social changes emanating from within. Bermuda was ready. The doors and windows had been opened to the future. They would not be closed again.

⁵⁶ Interview with David Lines, 3 June 2002