Bermuda Doubles Down on Crypto Despite Recent Market Turmoil

The island’s regulators aim to combine their international business expertise and a trained local workforce to become a digital-assets hub.

By Mengqi Sun [Follow]
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Bermuda, long known for its offshore insurance and reinsurance industry, is betting that its transparency around digital-asset regulation can help it attract more cryptocurrency projects and firms, despite the recent turmoil in crypto markets.

“We are aware of the recent devaluation in the price of cryptocurrencies and remain confident that it does not threaten the island’s ability to become a crypto hub,” said Jason Hayward, Bermuda’s minister of economy and labor. “This industry downturn is likely to advance our goal and positively impact our long-term growth and role in this sector.”

Bitcoin, the world’s largest cryptocurrency by market capitalization, has fallen more than 50% since its November record high. The collapse in value of TerraUSD and its sister stablecoin, Luna, in recent weeks saddled investors with billions of dollars in losses. As
traders take flight from risky investments amid rising interest rates and high inflation, 
more than $1 trillion in digital money has vanished since November.

Bermuda is one of the few jurisdictions in the world that has enacted a comprehensive framework regulating cryptocurrency, according to industry experts. Bermudan regulators say that their understanding of international business, which accounts for about 27% of the island’s economy, along with a trained local workforce, translate into a base for the development of a thriving digital-assets industry on the island. That puts Bermuda in competition with other jurisdictions vying for a share of the crypto industry, such as Malta and Liechtenstein.

Mr. Hayward said the island has been expanding its financial technology and crypto industries since 2017 and persevered through the last downturn in 2018. He said the recent collapse of Terra and Luna highlighted the importance of oversight and risk mitigation, something Bermuda has experience with as an insurance and reinsurance hub.

Bermuda’s approach to luring crypto businesses comes as many crypto companies say regulatory uncertainty remains a barrier for the wider adoption and further development of the industry. The crypto sector in the U.S. still lacks significant oversight and investor protections. President Biden in March signed an executive order that directs federal agencies to study digital currencies.

Observers aren’t surprised that Bermuda wants to establish itself as a crypto hub. David Schwartz, president of the Financial & International Business Association, said Bermuda is leading the way in establishing an infrastructure for the crypto industry, passing a comprehensive framework for regulating digital assets and tightening up its anti-money-laundering controls.

The Financial Action Task Force, a Paris-based organization that sets anti-money-laundering law standards, said Bermuda has made significant improvements to its anti-money-laundering technical compliance regime and has enacted and amended several key regulations, according to its 2020 mutual evaluation. But FATF noted that there were challenges recovering the proceeds from illicit activities.

Mr. Schwartz added that it remains to be seen how the Bermuda regulators intend to supervise and examine the crypto firms.
“They’ve got great rules and regulations and laws, but it’s all about the implementation at the end of the day,” he said.

Bermuda enacted a regulatory regime governing initial coin offerings and digital business assets in 2018, requiring crypto businesses to seek approval to operate there from the Bermuda Monetary Authority, which also oversees the island’s insurance and reinsurance industry.

The BMA has licensed 14 digital-asset companies since then, including four crypto companies in 2022, according to Craig Swan, the chief executive of BMA, who oversees all supervisory and operational activities conducted by the agency.

Circle Internet Financial Ltd., which issues the stablecoin USD Coin; crypto-lending startup BlockFi; and crypto exchange Bittrex Inc. all have operations in Bermuda, Mr. Hayward said.

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Bermuda’s licensing process can be broken down into three stages: a “sandbox” test license, similar to the one used in the island’s insurance-technology licensing regime; a modified license; and finally a full license, according to Mr. Hayward. He said the testing license typically lasts between three to 12 months, to allow a crypto company to try out its business. But he declined to give the amount of time typically needed to reach a full license, saying it depends on the complexity of the crypto product.

The licensing requirements in Bermuda include prudential supervision that examines risk management, governance and cybersecurity, as well as compliance with anti-money-laundering and counterterrorism financing regulations, such as sanctions screening and transactions monitoring, Mr. Swan said. The regulator also uses monitoring tools from blockchain analytics firm Chainalysis Inc. to help with its risk-based supervision, he added.
“So obviously the persons that we want in Bermuda must be fit and proper because essentially we’re looking at maintaining the jurisdiction’s quality name,” he said.

Other potential hurdles that could hinder crypto’s growth in Bermuda include the industry’s limited understanding of anti-money-laundering standards required for a license and a reluctance by banks and insurers to take crypto firms on as clients. In response, the BMA has been providing online training for service providers to help them understand the regulator’s anti-money-laundering expectations. And more banks and insurers are now taking on cryptocurrency firms as clients, Mr. Swan said.

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