

**Bermuda Monetary Authority  
BIBA New York Roundtable  
September 30<sup>th</sup> 2009  
ME Speech  
FINAL**

Good afternoon ladies and gentlemen,

I hope you have found today's event both useful and productive. I'd like to congratulate Cheryl Packwood and her team on hosting yet another very successful Briefing. Bermuda has such a compelling story and it's good to see so many of you taking the time to learn how our jurisdiction can support and help develop your businesses. I'm mindful that you've heard a lot of information today, and that the cocktail hour is calling.

As a result, I'd like to take a little time to focus on three questions:

- First, what are the key elements of the Bermuda regulatory system?
- Second, how well has the Bermuda market – and by implication the Bermuda regulatory system – fared in the global financial crisis?
- Finally, how well placed is Bermuda for the regulatory changes that are coming?

Let me start by giving a brief background about the BMA. The Authority is the integrated financial services regulator for Bermuda's financial market. Our principal role is to license, supervise and regulate the jurisdiction's financial markets and the firms which operate in them. We also work alongside other relevant Bermudian authorities to detect and prevent financial crime.

Based on most recent data the Authority regulates a market that comprises an investment funds sector with an aggregate Net Asset Value of \$171 billion, and a banking sector with total assets of \$23 billion. The Bermuda insurance market comprises nearly 1,400 companies with total assets of \$442 billion, and with gross premiums of \$124 billion.

The Authority is a risk-based financial regulator. This simply means we assess the nature, scale and complexity of entities seeking to be based in Bermuda, their related risk and the level of sophistication of clients involved, and supervise them accordingly. By applying risk-based frameworks, we are able to ensure that our standards remain appropriately calibrated to Bermuda's wholesale financial markets and that our supervisory resources are applied to those firms which pose the greatest risk. Having a risk-based

approach also allows us to detect problems at an early stage, and take regulatory action on a timely basis. Our risk-based philosophy is the underpinning of our supervisory programmes which includes a risk-based approach to on-site programmes as well as risk-based solvency rules.

Along with being risk-based, we also recognise the importance of maintaining a regulatory framework that is responsive to market innovation, while at the same time ensuring that businesses operate prudently and within strict margins of solvency. Our licensing and authorisations process, for example, sets clear minimum prudential standards while also ensuring speed to market. To facilitate innovation, through an amendment to the Insurance Act 1978 passed last year, we established Special Purpose Insurers – a new class of insurer within Bermuda’s insurance class system. We have just recently published guidance to assist market participants in putting forward applications for SPI structures such as side cars and cat bonds that demonstrate compliance with the Authority’s standards. And during the first quarter of 2009 we registered our first insurer under this new class.

Transparency is another important attribute of Bermuda’s regulatory regime. At the Authority, we are fully committed to improving transparency in the

work that we do. For the second consecutive year we have published a Business Plan that outlines our regulatory agenda and sets out clear milestones for our work programme.

Consultation is a cornerstone of our policy development process.

Consultation with market participants enable us to ensure that changes made to Bermuda's standards and requirements are not only in line with international best practice, but are also transparent, support innovation and are appropriate for the Bermuda market.

So, the key elements of the Bermuda regulatory system are: a risk-based approach that reflects the nature of Bermuda's markets; prudent standards of solvency; openness to market innovation and a commitment to transparency and consultation.

What about how the Bermuda market has fared during the global financial crisis? I'm happy to say that despite some challenges the Bermuda market has fared relatively well.

On the outset the Authority took a proactive approach to managing the impact of the crisis on Bermuda's financial market. As it became apparent that the crisis was deepening we intensified supervision of all sectors within Bermuda's market. This took the form of a combination of specialised market surveys, stress testing, and enhanced monitoring of those areas most impacted.

Overall, Bermuda's insurance industry has been resilient. Initially, only a small sub-set of insurance companies - financial guarantee companies, were impacted due to their exposures to sub prime investments. In this instance, we worked with those affected companies, and relevant overseas regulatory agencies, to successfully arrange acceptable commutation agreements that would help them meet their financial commitments as far as possible. As the crisis widened to impact the markets generally, Bermuda insurers, like most companies worldwide, experienced challenges to their investment portfolios which resulted in losses equivalent to those derived from a major hurricane event. However, most have been manageable.

Bermuda's banks also remained resilient, maintaining compliance with the Authority's capital and liquidity standards. We did however heighten

supervision of this sector given the potential exposure of banks worldwide to the effects of the crisis. Early in the year, we required Bermuda banks to perform a series of stress tests to simulate the impact on their operations of a severe economic downturn. Following this action, as a precautionary measure, we instituted a capital buffer requirement to ensure that the banks could withstand the economic conditions simulated by these tests and still maintain 6% tier 1 capital. A number of banks had capital injections as a result of our new tougher standard. In one case, with the private capital markets closed, the Government of Bermuda provided support to the capital raising exercise. This was in fact heavily oversubscribed by local investors. As a result of the actions of the Government and the BMA, the banking sector is in a very strong capital position.

As the crisis moved to yet another phase last autumn and investor confidence in the global market plummeted, Bermuda's funds sector was impacted with increased redemptions – a trend that was experienced worldwide. Despite these difficulties, Bermuda's regulatory framework for funds has compared favourably to those in on-shore centres, due to a particular condition of the framework that requires the separation of fund administrators, custodians and auditors. This requirement is considered a

strong element of the regime and has to date been effective in protecting investors in Bermuda funds from incidents of fraud such as those we witnessed elsewhere in this industry.

All sectors within Bermuda's financial market have therefore weathered the financial hurricane of the last year. However, the Authority remains vigilant and continues to monitor the situation very closely.

And so, how well is Bermuda placed for the changes coming to financial regulation?

Although on many fronts the state of change is yet to be determined, there is no doubt that significant regulatory changes are coming. The programmes arising from those changes are being driven forward by the likes of the G20 and the Financial Stability Board, the U.S. Government, and the European Union. While these programmes are in various states of adoption the Authority remains very much involved in tracking developments, and where possible is influencing the standards related to them. This is through our participation with international standard setters such as the International Association of Insurance Supervisors for the insurance industry, and the

International Organisation of Securities Commissioners for the investment industry.

The Authority has already initiated a major programme of change for Bermuda's insurance industry, which as per our risk-based philosophy, is targeted primarily to commercial insurers. So we are already anticipating many of the changes that are to come. This is a result of our work on mutual recognition

What is mutual recognition?

Mutual recognition, or regulatory equivalence, is the process by which regulatory authorities assess the frameworks and standards set by other jurisdictions. Where a jurisdiction's framework is deemed to be broadly equivalent, access to global markets for companies improves and duplicative regulation is eliminated. Achieving mutual recognition for Bermuda is important since many of the firms operating there also have branches and subsidiaries elsewhere, conducting significant cross-border business. It will benefit Bermuda, in that it will assist us in maintaining our competitiveness as a jurisdiction, and will enable Bermuda companies to conduct business

with international markets on non-discriminatory terms and avoid duplicative regulation and capital charges.

Our regulatory agenda is geared to achieving mutual recognition in relation to key jurisdictions, with particular focus on Europe and the U.S. markets. Bermuda starts in a strong position as the IMF concluded in 2007 that our regulatory framework is “highly observant” of international standards. Our approach now involves avoiding xeroxing of overseas standards, but instead adapting them intelligently for Bermuda’s market through consultation with market participants.

We have already made significant progress towards regulatory equivalence. Earlier this year we published our roadmap to mutual recognition which provides details of the initiatives the Authority will undertake over the next couple of years to complete our work.

Some of the highlights of what we have already achieved include:

- Establishing the Bermuda Solvency Capital Requirement, an enhanced solvency regime that will be applied to our Class 4

(re)insurers. The BSCR will assist us with implementing risk-based capital standards for high-impact insurers.

- Introducing a framework for the use of internal capital models to determine regulatory capital, including the standards and application process for accepting these models.
- Significant work on establishing a group wide supervision framework, including the establishment of a supervisory colleges programme for some of Bermuda's largest (re)insurers, as well as a discussion paper on our proposals for implementing group wide supervision.

Although there is still much work to be done, these achievements demonstrate that the Authority is keeping pace with international developments, and that Bermuda is one of the jurisdictions in the lead pack to achieve equivalency.

In parallel, we also have a long history of international regulatory cooperation with our overseas counterparties. This is demonstrated in many ways. As I've just mentioned, we've established a programme of supervisory colleges for some of our largest commercial (re)insurers. We've also continued our programme of establishing formal Memoranda of

Understanding with peer regulators. In fact, last September we signed a MoU with the New York State Insurance Department, and we have just signed a MoU with the Florida Office of Insurance Regulation.

I'd just like to say a brief word on standards development in the funds sector. Significant changes are afoot in this arena because standards have not previously been in place at the international level. The International Organisation for Securities Commissioners is actively working on developing international standards for this sector. Similar efforts are underway in the U.S. and within the European Union. These changes will most definitely impact offshore jurisdictions. The Authority is actively working to ensure Bermuda's fund regulation meets the new international standards through our participation with IOSCO. We are also liaising closely with other impacted jurisdiction such as the Cayman Islands and the British Virgin Islands on this front.

In summary, I hope I have shown that Bermuda has a well developed regulatory system that is based on transparency, support for financial innovation and a risk-based approach that recognises the wholesale nature of

Bermuda's financial markets. Also that, due to its inherent strengths, Bermuda's financial system has weathered the financial storm well. However, we remain vigilant and poised to act when necessary to ensure the continued stability of Bermuda's market. And finally: Bermuda is well placed to adapt to the changing international regulatory climate and is ahead of the game in updating our regulatory framework.

Thank you.