

Business Plan | **2010**

BMA



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The Bermuda Monetary Authority (BMA) is the integrated regulator of the financial services sector in Bermuda.

Established under the Bermuda Monetary Authority Act 1969, the BMA supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda's national currency; manages exchange control transactions; assists other authorities in Bermuda with the detection and prevention of financial crime; and advises the Government and public bodies on banking and other financial and monetary matters.

The Authority develops risk-based financial regulations that it applies to the supervision of Bermuda's banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses and insurance companies. It also regulates the Bermuda Stock Exchange (BSX).

Based on most recent data the Authority had regulatory responsibility for a market that comprises an investment funds sector with an aggregate Net Asset Value of \$171 billion; a banking sector with total assets of \$23 billion; the BSX with total market capitalisation of over \$226 billion; as well as over 1,300 companies in Bermuda's insurance market with total assets in excess of \$440 billion, a market that wrote \$124 billion in gross premiums.

See www.bma.bm for more information about the BMA and the Bermuda market.

Chief Executive Officer's Overview

The Bermuda Monetary Authority Business Plan for 2010 builds on the significant policy and resource developments the Authority has implemented over the past year, against the backdrop of an unprecedented level of turmoil in global markets. Financial markets and businesses, in Bermuda and worldwide, continue to deal with the lingering impacts of the global financial crisis. Similarly, financial regulators are considering the implications of the resulting comprehensive proposals for global regulatory reforms that are being developed in response to the crisis, which are being led by groups such as the G20 and the Financial Stability Board. While some institutions in Bermuda's banking sector, and a number of insurance firms experienced losses mainly related to their investment portfolios, the general resilience of Bermuda's markets has continued. This resilience, together with the Authority's proactive approach to managing the impacts of the crisis has contributed to the overall stability of the market.

Looking forward to 2010, the Authority will remain vigilant in closely monitoring possible further consequences or issues associated with the financial crisis. It is generally expected that there may be further challenges in the banking and

funds sectors given the prolonged effects of the crisis, and the economic pressures facing Bermuda, and we will continue our enhanced supervisory activities accordingly to ensure market stability is maintained. In addition, we will be continuing with policy developments to prepare for regulatory equivalence with other key jurisdictions, while also being mindful of relevant emerging financial regulation reforms internationally. We will also continue our active participation in the work of international standard-setting bodies, to support and contribute to on going efforts to raise global standards for financial regulation. We also intend to ensure the Authority's supervisory resources are appropriately enhanced, in alignment with our regulatory policy developments, to support effective implementation of our expanding risk-based supervisory programmes.

Preparing for Regulatory Equivalence

The Authority has set an aggressive policy agenda to enhance Bermuda's regulatory framework in order to achieve regulatory equivalence, or mutual recognition, with other key jurisdictions. We have placed particular emphasis on our insurance supervision in working towards this goal, and our focus is on achieving equivalence with the EU

initially and eventually the US, given the significant volume of insurance business conducted between those markets and Bermuda. We have maintained close monitoring of the developments specifically related to the EU Solvency II Directive and the National Association of Insurance Commissioners (NAIC) reinsurance modernisation initiative and port of entry proposals in the US over the past year. It is encouraging that the NAIC's proposals for reforming collateral requirements for non-US (re) insurance firms progressed to the point of legislative debate last year. However, the significantly increased momentum around Solvency II has driven much of the global debate and proposals for change in national regulatory frameworks among insurance regulators. Much clearer timelines for the programme of Solvency II equivalence assessments and decision-making processes emerged towards the end of last year. While we do not intend to simply duplicate Solvency II provisions and attempt to apply them directly to the Bermuda market, this development has added even greater impetus to our own preparations for the Directive. This particularly relates to specific framework developments under Pillar 2 of the Directive covering qualitative review of risk management by both firms and supervisors, as well as our

consultation with Bermuda's (re)insurers about the related enhancements to our regulatory framework.

Therefore, this issue will remain a key priority for the year, particularly since it appears Bermuda could be among the first wave of jurisdictions to be assessed for Solvency II equivalence and meeting international standards. Our intention is to build on the already significant policy work and framework implementation we have conducted to date to prepare for achieving equivalence. We have made considerable progress with the Solvency II Roadmap we published in 2009, which details our work plan towards equivalence under the Directive. We have made enhancements to the solvency regime for commercial (re)insurers and now have a new risk-based approach for the largest commercial insurers.

We have also made considerable progress in our work leading to permitting the use of insurer's internal capital models (ICM) to determine regulatory capital for selected commercial (re)insurers. Last year we published guidance detailing the various components of the Authority's ICM framework when operative. We have started consulting with Bermuda market participants to further develop

the ICM framework, and this will continue throughout 2010. Participants in the Bermuda market remain highly engaged and focused on our progress with preparing for equivalence, and are in turn taking steps to ensure they will be ready to comply with the additional solvency requirements that we have planned. Our plans for this year will also include progressing work towards implementing group-wide supervision. By the end of last year we had developed our proposed approach to group-wide supervision and initiated preliminary consultation with the market on our proposals. These proposals build on the existing elements of group supervision that the Authority already conducts, such as the assessment of group controls for Bermuda-based insurers and supervisory colleges. Work to progress details of our framework for group supervision will move forward during 2010. This work will focus on further detailed development and implementation of the supervisory processes within our proposed framework for group supervision.

Other priorities in terms of our work related to regulatory equivalence will include setting ORSA or Own Risk Solvency Assessment requirements, by which firms will provide their own assessment of their capital needs based

on the risks to which they are exposed; establishing eligible capital rules; further consultation on proposed public disclosure standards; and introducing an Insurance Code of Conduct. Although there is still much work to be done, we have already made significant progress towards equivalence, and Bermuda remains among the leading group of jurisdictions in terms of preparation in relation to this important goal.

Building on Effective Supervisory Resources

Financial regulators worldwide are facing the common challenge of ensuring they have the right resources to meet the growing demands and expectations of the global regulatory environment, as well as the complexities of the markets they regulate. The Authority has placed strategic focus on operational effectiveness for some time and has achieved success in building the depth of the technical skills within our supervisory teams, as well as in our policy, risk analytics, and actuarial areas. Growth in headcount to generate these additional resources has supported the substantial policy developments and enhancements in operational efficiency that we have instituted in recent years. Our focus moving forward will remain on ensuring that the skill sets within the

Authority's team reflects the demands of the prevailing challenging market conditions. A strategic priority for this year and beyond is ensuring that the Authority is prepared to address, from an operational standpoint, key issues such as group supervision for insurance companies and enhanced capabilities for macro-prudential supervision. Therefore, we intend to keep the emphasis on building resources within our supervisory, policy and risk analysis teams this year. We will be adding high-level technical skills and expertise to support both continued policy development and follow-up implementation of the expanded supervisory regimes that will result from our enhanced regulatory framework. A primary example of this relates to our work on establishing the Authority's insurance group supervision framework. We will support this work during the year by investing significantly in the recruitment of senior-level, experienced staff to add to our supervisory and policy teams, specifically to finalise and implement the groups framework. Overall, our resource-building activity during 2010 will support the next wave of our work towards regulatory equivalence, and also ensure that the Authority maintains a high level of operational effectiveness.

Regulatory Reform in the Aftermath of the Financial Crisis

One of the primary lessons learned from the financial crisis is that international regulations did not keep pace with the growing complexities of the markets they regulated. This has motivated key influential bodies such as the G20, the Financial Stability Board, the European Union (EU), the Basel Committee and the International Association of Insurance Supervisors, to conduct a major international regulatory post-mortem with the objective of revamping global standards. There are also major reform initiatives underway at the national level within jurisdictions, such as in the US.

In addition, the financial crisis has heightened focus on the issue of macro-prudential supervision. It has been noted that supervision at the company level (micro-prudential) may not detect and appropriately account for the adverse impact of "asset bubbles" and other challenging economic issues on local and/or international financial systems at the macro level. The Authority plans to develop a more holistic approach to macro-prudential supervision, in line with evolving international regulatory practice, which looks across sectors in the Bermuda market and accounts for

relevant interconnections, drivers and trends.

Overall, the implications for Bermuda of all these changes are that new global standards will inform the regulatory policies and practices the Authority applies in 2010 and beyond. We intend to continue monitoring these developments, and also contributing to the on going debate on global regulatory reforms, and the development of macro-prudential supervision, via our active participation in the work of international standard setting bodies.

Our insurance regulations are well placed for such developments because of our work in preparing for regulatory equivalence under Solvency II. Our goal is to achieve broad equivalence for our commercial market frameworks under the Directive. Achieving this is important, as it will provide Bermuda companies with access to European markets on a non-discriminatory basis. This will also build on international recognition of the quality and effectiveness of Bermuda's financial regulations. With respect to banking regulation, the Basel Committee for Banking Supervision is working on raising global standards, particularly as they pertain to capital adequacy. Bermuda's banks are

relatively well prepared for these changes, given the additional buffer requirement that was put in place last year. The Authority is however closely monitoring developments and will take appropriate steps to enhance its policy framework to ensure Bermuda remains fully aligned with international standards. We also intend to build on our successful implementation of Basel II in Bermuda in 2009 by conducting further framework developments during 2010, for example in relation to our liquidity policy for Bermuda's banks. This work will be consistent with revised guidelines issued by the Basel Committee regarding liquidity management in banks, and related guidance for supervision of banks in this regard.

Indications are that the most dramatic changes in terms of reform internationally will be within the funds industry, as there have been previously no international standards in this area. The EU standards being developed may well set the benchmark for the rest of the world, in addition to standards being developed by the International Association of Securities Commissions (IOSCO), thus requiring enhanced regulation of this sector. For Bermuda, this will most likely have implications for our funds and fund administrators.

Through our participation with IOSCO, we will be actively working to ensure Bermuda's fund regulation meets the new standards. We will also continue liaising closely during the year with other impacted jurisdictions on this front.

Enhanced Anti-Money Laundering Regime Implementation

The Authority has successfully shifted the focus of our work in relation to Bermuda's enhanced regulatory framework and new standards for anti-money laundering (AML) and anti-terrorist financing (ATF) from policy development to supervisory programme implementation over the past year. Our AML/ATF Compliance Unit has provided us with the dedicated in-house resources required to act on the expanded AML/ATF responsibilities conferred on the Authority under the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, one element of a suite of legislation passed to strengthen Bermuda's AML/ATF regime over the last two years.

The Unit has established a formal registration process for non-licensed persons for the purposes of AML/ATF supervision. The team has also conducted a number of focused AML/

ATF on-site reviews, which have been effective in monitoring compliance in the market with the new standards, and for providing feedback to firms on achieving further progress in transitioning to those standards where applicable. This activity has also effectively created the benchmark for any follow-up enforcement activity that might be required in the future, as we had envisioned at the start of this process. For 2010, we intend to build on these achievements by continuing the AML/ATF supervisory and enforcement programme, which will include an enhanced, risk-based AML/ATF on-site programme; extended and themed surveys of AML/ATF regulated institutions to support on going monitoring of compliance with the regime; and conducting enforcement actions, as necessary.

Consumer Protection

The Authority has investor, policyholder or depositor protection as a core underlying principle as we conduct our responsibilities. Our risk-based approach to regulation allows for the effective application of our supervisory models for regulating entities in the banking, insurance and investment sectors. This means allocating greater levels of resources to those firms with higher risk profiles and potential market impact.

The significance of such an approach has increased resonance today, given that another of the key lessons learned from the financial crisis related to consumer protection. Consumers of financial services should be given every opportunity to understand the risks and rewards associated with the products sold to them, underpinned by sound regulatory oversight and control of the entities selling those products. The Authority has over the past year addressed with heightened supervision, and made public various enforcement actions in a number of cases that posed risks to consumers in the investment market. During 2010 we will be placing further emphasis on the issue of consumer protection with specific supervisory regime enhancements, as well as public outreach activities. Our goal will be to ensure these enhancements provide added protection to retail consumers in the Bermuda market, while also being consistent with applicable global standards and best practice. We will also seek to help consumers of financial services make informed decisions.

Our emphasis in these initiatives will be on conduct of business, as well as transparency and disclosure generally among institutions providing retail

financial services. We will focus our activities on the local banking and investment markets, as well as the domestic insurers, aligning them with the development and introduction of key regulatory and/or supervisory initiatives in 2010 that relate to consumer protection. Chief among these items will be establishing a Deposit Insurance Scheme (DIS) for the banking sector, and, for the investment sector, issuing a revised Code of Conduct under the Investment Business Act (IBA) 2003. The DIS will complement our existing supervisory regime for banks and will provide an added layer of protection for local bank depositors, helping to promote financial stability in the local market. We have held initial discussions with the market and the Ministry of Finance on this matter, and will be conducting formal consultation on policy and legislative proposals for the DIS in the first half of 2010. We anticipate that the DIS framework will be in place by the end of the year.

We will issue the IBA Code of Conduct by mid-2010. One of the main objectives of the revised Code will be to enhance disclosure practices among investment providers, to ensure the information provided to their clients supports them in making informed investment decisions.

The Authority also intends to foster financial literacy among local consumers of financial services. We are developing a dedicated education and awareness initiative in that regard that we will implement during the year. This initiative will be spearheaded by a senior member of the Authority's management team, who will act as our consumer 'champion'. This will involve ensuring that we extend our role in relation to consumer protection with specific public outreach and educational programmes to complement our supervisory responsibilities.

The Authority's Business Plan for 2010 shows another year of aggressive policy development, balanced with active implementation of enhanced supervisory programmes; a measured response to international regulatory reforms in the aftermath of the financial crisis; and corresponding targeted, strategic growth in our operational resources and technical expertise.

We will continue our extensive and crucial consultation with stakeholders within Bermuda throughout this on going development process. We also intend to maintain our active dialogue and high level of engagement with the Authority's regulatory counterparts and key international standard-setting bodies overseas. This will enable the Authority to both stay abreast of, and contribute to, external changes that are relevant to the Bermuda

framework. The fact that this jurisdiction will shortly be facing the challenge of equivalence assessments makes such engagement even more important. The focused work streams in this Business Plan are designed to help Bermuda move closer towards achieving regulatory equivalence, and represent the Authority's continued commitment to Bermuda's success as a leading financial centre. The Authority believes Bermuda is in a strong position for those evaluations, and understands that having the support of a leading risk-based financial regulator will be critical for the jurisdiction to maintain that position.

Jeremy Cox

Chief Executive Officer

January 14, 2010

Moving Forward: Progress Towards Regulatory Equivalence

The Authority has made considerable progress in its work to prepare for achieving regulatory equivalence, or mutual recognition, for Bermuda. After setting an aggressive policy agenda last year, we successfully implemented a range of related framework enhancements, which were primarily focused on the Bermuda insurance market. Those enhancements brought higher standards of capital adequacy, transparency and disclosure and risk management for the large commercial (re)insurance sector.

This strategic priority will remain a focus for 2010, with work that will continue to strengthen Bermuda's position for achieving equivalence for its regulatory and supervisory frameworks. This focus, and the progress we have made in terms of our related framework developments over the last two years, is even more important given the increasing momentum surrounding equivalence assessment programmes being planned, in particular by the EU authorities for Solvency II. A consultative document with draft assessment criteria for this initiative was distributed for feedback to stakeholders at the end of last year by CEIOPS, the Committee of European Insurance and Occupational Pensions Supervisors. CEIOPS will conduct the assessment programme for Solvency II equivalence on behalf of the European

Commission. It has also emerged that Bermuda could be among the first wave of jurisdictions to be assessed for Solvency II equivalence. The prospect of being evaluated early in the formal assessment process has added even greater focus to our preparations. Indications are that CEIOPS will carry out this first wave in the second half of 2010, and make recommendations to the Commission early in 2011. The Commission's decision is anticipated by the end of 2011. With this timeline in mind, the Authority will be working through this year to implement the key projects set out in our Solvency II Roadmap, as shown below.

The Authority's programme of supervisory colleges, another aspect of our equivalence preparations, has successfully met our objective of enhancing cooperation and dialogue with our regulatory counterparts overseas in relation to Bermuda entities that are part of international groups. Our supervisory colleges have brought together supervisors from around the world who are responsible for regulating Bermuda-based insurance groups with global operations. We have also conducted such colleges for groups in Bermuda's banking sector over the past year. We discussed with the other participating supervisors the risk profiles, key regulatory issues and other matters of mutual interest

regarding those groups. Supervisory colleges are now an integral part of our risk-based supervisory approach and we will conduct further colleges during 2010. We regard such meetings as a useful basis for continual, long-term dialogue between our supervisors and colleagues overseas that can facilitate cooperation when addressing future issues which may arise with groups.

For the Authority, supervisory colleges are also part of our work towards establishing group supervision for the insurance sector. Indeed, the success of the supervisory colleges we have conducted has reinforced the importance of supervisory cooperation and information exchange to effective group-wide supervision. We have also attended colleges hosted by fellow regulators overseas with this in mind. Our continuation of this programme during 2010 will also have the added benefit of establishing formal criteria for determining when the Authority will be designated as lead supervisor for particular groups, and the extent of cooperation we will require from fellow-regulators with supervisory responsibilities for such groups.

Solvency II Roadmap¹

Solvency II continues to represent both a challenge and an opportunity for regulators and firms alike. However,

¹ The Authority published in March 2009 "Bermuda's Insurance Solvency Framework – The Roadmap to Mutual Recognition", referred to as the Solvency II Roadmap. This publication highlighted the Authority's progress to date regarding framework changes related to achieving regulatory equivalence with Solvency II for Bermuda, as well as plans for further changes. The Solvency II Roadmap is available on the Authority's website www.bma.bm

it is clear that relevant stakeholders, whether in the EU or in jurisdictions like Bermuda with significant cross-border insurance transactions with Europe, are likely to benefit most from the Directive if they are proactive about preparing themselves early to manage this coming regulatory change.

The Authority has recognised the importance of the Solvency II Directive to Bermuda for several years now. We subsequently developed the Solvency II Roadmap to guide our work towards achieving broad equivalence under this Directive, and have made considerable progress with the initiatives we identified for action. That work will continue in 2010 and will include a number of key projects. We will move further forward on the process of transitioning to a group-wide supervisory regime that will supplement our current solo-based supervision of Bermuda's (re)insurers. Our plan is to apply group supervision initially to Class 4 and Class 3B firms. The Authority began consulting with the market on our proposals in this regard last year; further consultation is planned in the first quarter of 2010. We will also focus on developing further enhancements to the Authority's transparency and disclosure regime for (re)insurers during this year. We introduced the requirement for Class 4 companies to produce publicly available

general purpose financial statements last year, and made the necessary legislative and policy changes to enable the Authority to publish those statements. We intend to effect the same process to extend this requirement to Class 3B companies, thereby ensuring an enhanced level of public disclosure for Bermuda's largest commercial (re) insurers. We also will be developing during 2010 additional risk and financial regulatory disclosures for both Class 4 and Class 3B firms, building another element into our framework that will support enhanced transparency. The Authority has reviewed the recommendations of the Transparency Task Force established in Bermuda last year to assist us in this process. We have now further developed our proposals for this enhanced level of disclosure requirements, intended to include both financial and quantitative risk and governance disclosures. Our proposals take into account the current disclosures firms provide to the Authority, and development of risk disclosure requirements under other regimes in major jurisdictions. The Authority will circulate a Consultation Paper and draft legislation to the market during the second quarter of 2010 for feedback on these additional disclosure proposals, with the intention to issue guidance by the end of the year.

Enhancements to the Authority's capital adequacy regime for (re)insurers began with the successful roll out of our standard capital model, the Bermuda Solvency Capital Requirement (BSCR) to Class 4 insurers. Firms in this sector of the market have now made their second round of BSCR submissions since the launch of the model. We have used our review and validation of these submissions effectively, both for our on going analysis of the capital position and solvency of such firms for supervisory purposes, and in terms of ensuring that the model is appropriately calibrated for our solvency calculations. We will be extending application of the BSCR regime to Class 3B companies during 2010. Our goal for this year is to conduct analysis initially on a trial basis of Class 3B BSCR submissions for year-end 2009, with a view to full implementation taking place for year-end 2010.

Having begun in 2009 the consultation process on our proposals for eligible capital, we will now be acting on feedback received from the market to finalise the Authority's regime in that regard. We now will be moving forward to develop, among other matters, appropriate definitions for eligible capital and underpinning eligibility limits. Our intention is to develop rules that will establish tiered regulatory capital requirements for insurers in

relation to their coverage of policyholder liabilities. These rules will be based on various criteria relating to the quality of capital employed by firms, including loss absorbency characteristics. This work will also include further development of proposals regarding consideration of off balance sheet items, and assessing the feasibility of using an economic balance sheet in relation to eligible capital requirements to underpin the regime.

We published a Discussion Paper on our ORSA, or Own Risk Solvency Assessment, proposals in September 2009. This is in keeping with our objective to harmonise the Authority's capital assessment for regulatory purposes, with insurers' own assessments of their capital requirements that take full account of the material risks to which they are exposed, and the processes they have in place to mitigate those risks. In practice, the ORSA process will require Class 4, Class 3B and Class 3A firms to demonstrate the link between their capital adequacy, risk governance processes and strategic planning. Requiring this type of qualitative self-assessment from insurers is also consistent with Pillar 2 of Solvency II requirements, as well as the guidance on ORSA produced by the International Association of Insurance Supervisors (IAIS). In keeping with our overall risk-based regulatory approach, the ORSA process will establish minimum

requirements appropriate to the size and risk profile of insurers.

We have provided the market with high-level guidance on our approach to introducing ORSA requirements in Bermuda. In this initial round of market consultation, via the Discussion Paper published last year, the Authority outlined the proposed elements of our ORSA framework, and also indicated that we see the ORSA process as an opportunity to consolidate regulatory reporting requirements. The Authority also proposes establishing an electronic reporting platform that will enable insurers to use their existing management information systems for the purposes of regulatory reporting. The ORSA evaluations will form a core part of our supervisory review process, along with on-site reviews, BSCR analysis and conducting stress tests. They will also complement the development of our framework to approve internal capital models. The ORSA framework calls for capital add-ons to be applied to in exceptional circumstances to firms as deemed necessary, based on our evaluation of their ORSA submissions.

Having put forward details of our approach to introducing ORSA to the market, we will be following up with further consultation during this year. We will subsequently publish guidelines

on what the Authority will expect firms to include in an ORSA, based on the differences in size, business mix and risk profile of Class 4, Class 3B and Class 3A insurers. In order to take into account market feedback and developments on ORSA internationally, we will publish a Consultation Paper during the second quarter of 2010.

Group Supervision

The Authority began the consultation process on the complex issue of group supervision for (re)insurers last year with the distribution of a Discussion Paper to the market. The feedback generated from this first round of consultation provided useful input as we continued developing this initiative. Our proposals will build on the elements of group supervision that the Authority has been transitioning into over the past several years in relation to the Bermuda insurance market. In addition to supervisory colleges, these include obtaining information during our supervisory review process of insurance firms that are part of an international group which provides an overall assessment of that entity's risk exposure from the group, and associated controls to mitigate that risk. We will be extending this activity early in 2010 by requiring enhanced details of group organisational structures and material intra-company transactions from such firms. This will be another important step forward towards

establishing group-wide supervision for Bermuda.

However, during the year we will progress significantly further with our proposals for introducing a broader, comprehensive framework for group supervision. This work will take into account the feedback received from the Discussion Paper, as well as developing international standards. We have developed our proposed overall approach to introducing group-wide supervision, along with preliminary details regarding the scope of the Authority's proposed framework for group supervision. Supervisory processes within the proposed framework cover assessment of group governance and risk management; group solvency, which will include capital models, intra-group transactions and risk considerations; treatment of non-financial entities; and group financial reporting. This framework will supplement the Authority's existing regime for solo entity supervision. It also addresses key issues such as the appropriate definition of a group; the conditions under which the Authority would seek to be considered as the group-wide supervisor; and direction for home-host supervisor interaction. The Authority will also be amending the BSCR model to facilitate its application at the group level. In addition, we will seek to ensure that Bermuda's standards for group supervision are broadly equivalent

to international standards established in this regard. With that in mind, the Authority will maintain our active participation in the IAIS's work on group-wide supervision, continuing to represent Bermuda in the Vice Chairman position on the IAIS Insurance Groups and Cross-Sectoral Issues Committee.

The Authority will publish a Consultation Paper with further details on its proposals for introducing group-wide supervision in the first quarter of 2010. We also intend to develop the necessary legislation to support establishing the groups framework by mid-2010. It is proposed that once introduced, group supervision will initially apply to Class 4 and Class 3B (re)insurers.

We recognise that introducing and effectively implementing group supervision will require significant resources. The Authority will need to ensure that appropriate levels of resources are in place to conduct group assessments for supervisory purposes, additional supervisory colleges and other aspects of the proposed framework. Accordingly, we will be investing significantly during the year to add to the senior-level expertise and technical skills within members of our supervisory and policy teams to enhance the resources that will be dedicated to implementing group supervision.

Internal Models

The Authority formally established last year the standards and applications process for permitting the use of insurers' internal capital models (ICM) to assess regulatory capital, which currently applies for Class 4 companies. This development supports the Authority's on going preparations for Solvency II equivalence. The guidance we have issued to the market for this initiative provides details of the various components of the Authority's ICM framework, including provisions relating to pre-application conditions; application review procedures; and post-approval monitoring and control activities. The guidance also covers the insurers' self-assessment process, which requires an insurer to confirm that its ICM meets a number of general criteria prior to the Authority starting an ICM review. Throughout 2010 we will be conducting a pilot implementation of the ICM application and review process with selected Class 4 insurers. This next phase of development for the ICM framework will involve firms participating in the pilot submitting details of their internal capital models to demonstrate the robustness of their model; indicate an understanding of its capabilities and limitations for assessing capital requirements for the company; and show how well it is embedded within the company's risk management system.

Banking, Trust and Investment Developments

In the aftermath of the worst financial crisis in living memory, and while continuing to monitor its lingering effects, the Authority intends to move forward with developing our framework for banking supervision in anticipation of the further evolution of Basel II and additional reforms in banking supervision at the international level. Given the extended effects of the financial crisis, we anticipate that there may be further losses in the banking sector. Accordingly, we will maintain our precautionary enhanced supervisory activities in relation to Bermuda's banks to ensure continued market stability. There will also be significant policy development within our supervisory framework for banks during 2010. This will include enhancements designed to take into account global trends in macro-prudential banking supervision focused on strengthening standards for capital and liquidity risk management. We will be reviewing and where necessary making changes to the Authority's standards in this regard during the year, in addition to our on going monitoring of banks' capital adequacy, to ensure they remain consistent with best international practice.

The Authority's role in terms of depositor and investor protection is also driving these changes. We intend to develop proposals for enhanced intervention powers in relation to banks in parallel to developing a Deposit Insurance Scheme for Bermuda during 2010. We have also been in discussion with Bermuda's banks regarding their development of a Banking Code of Conduct. Good progress has been made with this initiative. The Code will lay out a number of commitments the banks will seek to abide by in their treatment of customers as well as setting out the principles and standards of business conduct that will apply to their provision of services and information disclosure to customers. The Authority will, through its routine supervision, seek to ensure that all banks have in place

appropriate measures to monitor their compliance with the Code and make good their commitments to customers.

The work initiated last year to update the legislative and policy framework for credit unions in Bermuda has been completed. The Credit Union Act 2009 facilitates regulation of credit unions to be the direct responsibility of the Authority. We anticipate that the new legislation will be enacted early in 2010.

As regards the investment sector, the Authority is working with investment firms to enhance the transparency and quality of information provided to investors. We established a Working Group towards the end of last year to review the existing industry Code of Conduct issued under the Investment Business Act 2003 (IBA) with a mandate to improve disclosure practices. The goal is to revise the Code to incorporate more explicit guidance as to the form and content of information investment firms and pension providers give to their clients, whether personal or institutional, to assist clients to make informed investment decisions. This development is consistent with good international practice in that it seeks to place higher standards of disclosure on investment firms generally. We intend to issue a Consultation Paper to the market, taking into account recommendations from the Working Group review, by the end of March. Subsequent to the market consultation period, we expect to implement the revised Code by the end of the second quarter of 2010.

The regulatory framework for the funds sector in Bermuda remains effective for the jurisdiction; however, the Authority is currently reviewing proposed amendments to the Investment Funds Act 2006, the primary legislation for fund regulation. This review, which is being conducted in full consultation with the industry, is part of the Authority's continual evaluation of its regulations

to ensure that they remain practical and effective for the Bermuda market and in line with standards and regulatory developments internationally. The international debate regarding how hedge funds should be regulated has been revived in the wake of the recent issues experienced in the global markets, and this will also inform our current review of our legislative framework for funds. There is still much uncertainty around this issue; however, we are also embarking on a more fundamental analysis of the regulation of hedge funds in Bermuda, based on the concerns raised by such groups as the G20 in relation to the financial crisis and the proposals that the International Organisation of Securities Commissions (IOSCO) has developed in this regard. The Authority remains committed to ensuring that Bermuda's legislative and supervisory framework continues to be appropriate for the market we have here while being consistent with international standards and we are closely monitoring developments on this front. Our intention would be to implement any adjustments made to Bermuda's funds framework carefully, and with detailed consultation with the market, as is the process with all enhancements applied to our regimes. With this in mind, we will be consulting with market participants in Bermuda throughout 2010. We will also be contributing to the international debate on global standards for hedge fund regulation during the year through dialogue with our supervisory counterparts in other important fund jurisdictions, as well as with formal representations and position papers to IOSCO and the Offshore Group of Banking Supervisors via our long-standing membership of each organisation.

These submissions will be based on the pre-approval criteria we established last year, which took into account emerging best practice and standards for internal models promulgated by the IAIS and Solvency II. The Authority will use this pilot to test the planned review process, assessing the adequacy of the design and calibration of the models submitted; the governance structure surrounding them; and determining the extent to which the models are used in the strategic decisions, underwriting and risk mitigation strategies of the participating firms.

Our continuing development and phased implementation of the internal models framework during the year will be closely linked to work relating to the ORSA requirements and risk and governance, to support our overall enhancement of Bermuda's solvency regime for insurers.

Banking Supervision

The Authority's revised capital framework, based on the Basel II internationally- recognised standard, came into effect at the beginning of 2009. The market successfully transitioned to the Authority's final rules and new reporting requirements, reflecting the close co-operation between the banks and the Authority in the three years prior to implementation. Implementation of the new framework,

in tandem with our proactive steps to manage the impact of the financial crisis, in particular our mandating that the banks undertake a rigorous stress-testing exercise, led to higher levels of capital in the banking sector and proved to be beneficial in terms of maintaining stability in the market. A key element of the new capital framework has been the Authority's review of internal capital assessments provided by individual banks. This work provided the basis for final capital guidance issued to individual banks in late 2009. This has resulted in a distribution of capital across the sector that better reflects the risk profiles of the different institutions. Matching capital requirements to a more detailed and holistic assessment of risk is an essential element of the new capital framework and in keeping with our risk-based approach to supervision. The process of the Authority reviewing the banks' internal capital assessments will be conducted again in 2010, and will become an annual requirement as part of our routine supervision of the banking sector.

The stress test requirement that the Authority applied to the banks last year was intended to ensure that Bermuda's banks would be well prepared for the effects of a possibly prolonged downturn in the local economy and global financial markets. The objective of the capital

buffer requirement that we instituted as a proactive, precautionary measure, were to ensure that the banks could withstand the losses they would sustain in such a severe economic downturn and still maintain adequate levels of high quality capital. This very prudent requirement has supported continued stability in Bermuda's banking sector.

However, given the importance of stress testing as an essential risk management tool, and the greater emphasis being placed internationally on this requirement in the wake of the financial crisis, we have begun work in consultation with the industry on reviewing our stress testing methodology with the intention of issuing revised guidance to the market. As in currently the case, the guidance will be consistent with the principles for sound stress testing practices and supervision that the Basel Committee issued in 2009.

It is already clear that in 2010 there will be new international standards relating to capital and liquidity. The Basel Committee is working on a number of measures designed to strengthen the quantity and quality of capital in the banking system. These are likely to include the introduction of a leverage ratio, a requirement that banks hold a counter-cyclical capital buffer and a greater emphasis on paid-up equity

and retained earnings, the highest quality of capital. The Authority will be monitoring developments closely with a view to revising its capital framework as necessary to reflect the new international standard.

With respect to liquidity, we plan a major overhaul of our existing policy in 2010. While the Authority's existing liquidity policy is consistent with Basel Core Principles, as confirmed in the most recent IMF review of Bermuda's regulatory framework for banks, it is clear that the international standard will be raised to reflect lessons learned from the global financial crisis, during which banks in a number of different countries suffered severe liquidity shortages. Accordingly, we plan to begin a review of the existing policy early in 2010 that will look at all aspects of liquidity risk and management. In addition to reviewing our current mismatch approach, we shall be considering the introduction of an explicit liquidity stock requirement. Other likely enhancements are a requirement that banks use stress-testing to assess their vulnerability to a liquidity shock and the need for banks to have appropriate contingency funding arrangements in place to cope with stressed conditions. We plan to issue a consultation paper on our proposals by mid-2010, with a view to publishing a revised policy by the end of the year.

We will also be enhancing the Authority's intervention powers with respect to banks. The Authority currently has a range of supervisory powers under the Banks and Deposit Companies Act 1999 (BDCA) to deal with non-compliant institutions, including the restriction or revocation of licences. However, we will be developing policy proposals to allow the Authority to intervene quickly in cases of troubled banks. This will ensure that action can be initiated, and issues addressed, as efficiently and effectively as possible in the event that a bank is failing, for the ultimate protection of customers and to support market stability. This development also addresses the most significant recommendation regarding the banking sector made in the last International Monetary Fund review of Bermuda's financial regulations. Taking this step is also consistent with global trends in banking supervision, as well as the recommendations in the Review of British Offshore Financial Centres conducted last year by Michael Foot, in particular that jurisdictions should have a range of powers to resolve a crisis in their financial services sector.

Risk-based Supervision

The Authority's risk-based approach to regulation – which allows us to differentiate between retail and wholesale markets, and allocate our

supervisory resources efficiently to firms with higher risk profiles – remains effective for the Bermuda market. The Authority continuously reviews the risk-based frameworks we apply in our regulation of banking, insurance and investment entities. Our goal with this on going analysis of our frameworks is to ensure that they remain effective and appropriate, in relation to both the nature of the markets we regulate and applicable international standards. Based on our most recent review activities conducted through to the end of last year, we will be implementing several significant framework enhancements during the course of 2010:

Reporting Requirements - Segregated Accounts Companies

– Bermuda's attractiveness as a (re)insurance market continues to extend to a wide range of entities, from large excess-capacity commercial (re)insurance companies, to single-transaction Special Purpose Insurers, to Segregated Accounts Companies (SAC), also known as rent-a-captives. The SACs in Bermuda provide an alternative to clients wishing to take advantage of the benefits of a captive programme without having to incur the organisational and on going management costs of establishing a dedicated vehicle. Clients have the ability to own a 'cell' within the SAC

structure, which essentially can act and contract insurance business similar to a captive. Under the Segregated Accounts Act 2000 insurance activity is legally segregated to protect or 'ring-fence' the assets and liabilities of one account, or cell, from the assets and liabilities of other cell participants or accounts. The SAC sector continues to grow and currently represents a notable portion of the volume of business written in the Bermuda captive market. Latest available statistics show that the number SACs registered represents just over 9% of Bermuda's captive market, writing over \$1.5 billion in Gross Premiums Written.

The SACs represent an important feature of the captive market in Bermuda and we wish to ensure that our supervisory regime for SACs remains appropriate. As part of the Authority's continuous overall refinements to our supervisory framework for insurance, we intend to review and enhance the reporting requirements of the SAC sector in order for us to remain knowledgeable about the customers using such vehicles and the insurance activity being conducted in individual cells. We see this as an opportunity to build on the quality of information that the Authority obtains from SACs for supervisory purposes and to ensure that our reporting requirements are consistent with international best practice. This additional reporting

will also assist in further refining or enhancing our regime and framework, ensuring that Bermuda retains its leading position in this expanding sector.

On-site Programme Developments - during 2009 the Authority conducted a wide-ranging review of our on-site programmes for banking and insurance entities. This review had been planned as part of our schedule of activities for the year, and was given added impetus from the results of our last External Stakeholders Survey, in which responses from the market highlighted some areas for additional attention with respect to the on-site programme. Based on this review, we have implemented a series of enhancements to the on-site programme that have added efficiencies to the assessment process. One such enhancement is the introduction of the Risk Committee, comprising senior staff from the Authority's risk analysis and regulatory areas, as a key component of our internal peer review of assessments as well as other regulatory matters. The Risk Committee has added to the analytical integrity and consistency of the assessment process.

The Authority has sought feedback from the market regarding the changes we implemented to the on-site programme over the past year. We will be analysing that feedback to inform our continuous

improvement activities in relation to on-sites in 2010. We will continue to consider the impact of relevant internal and external factors related to our supervisory processes, and in particular the on-site programmes, with the on-going goal of enhancing efficiency and effectiveness from the perspective of both the Authority and the market. We will also incorporate into those processes the regulatory framework enhancements that the Authority will implement in relation to our Solvency II preparations during the year.

Anti-Money Laundering and Anti-Terrorism Financing

The Authority has continued to follow through on its expanded supervisory and enforcement powers with regard to anti-money laundering and anti-terrorist financing (AML/ATF), which were broadened with the passing of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008. The expanded powers afforded to the Authority under this legislation supports the on-going collaborative approach to AML/ATF regulation within Bermuda, which, in addition to our efforts, includes our colleagues at the Ministry of Finance, the Ministry of Justice and the on-going support of the National Anti-Money Laundering Committee. The Authority has since established a dedicated AML/ATF Compliance Unit responsible for ensuring

institutions which fall within scope of the AML/ATF regime are in compliance with Bermuda's new AML/ATF standards. As is to be expected, the AML/ATF on-site reviews that the Unit conducted last year showed that there were varying levels of compliance with the new standards among AML/ATF regulated institutions, as firms transitioned to those standards. The Authority remains committed to working with institutions to ensure they make the necessary adjustments to reach full compliance with the new standards implemented on January 1st 2009. As we move into 2010 the Authority would expect institutions to be largely compliant with the new standards and will be adopting a more robust approach to ensuring compliance and taking enforcement action. In addition, the Unit has successfully established and implemented the process for the registration of non-licensed persons for the purposes of AML/ATF supervision.

In 2010 the Unit will progress the Authority's agenda for AML/AFT supervision by continuing the regime of on-site visits and the distribution of the AML/ATF Self-Assessment Questionnaire. The supervisory plan for this period was developed in part from the results of a pilot Self-Assessment Questionnaire and survey with some AML/ATF regulated institutions that the Unit conducted at the end of 2009, to assess both the

compliance levels and risk profiles of individual firms for the purposes of AML/ATF supervision. The supervisory and enforcement programme for this year will therefore include a risk-based AML on-site programme, allowing the Unit to allocate its resources efficiently and appropriately across the market, and reviews will take place throughout the year. The Unit will also issue the Self-Assessment Questionnaire to all remaining institutions by the end of the second quarter, revised based on learning gained from the pilot survey. The team will also subsequently conduct later in the year a themed survey of selected sectors of the market, to gain deeper insight into how effectively institutions are complying with specific elements of the AML/ATF regime. Activity to educate the market and enhance institutions' understanding of their obligations under the regime will also continue throughout 2010, via a series of industry seminars and other outreach activities.

Enforcement

The Authority's powers and approach to enforcement will continue to evolve, and during 2010 we will be implementing further steps in our overall plan to upgrade the enforcement framework in Bermuda incrementally, to ensure it remains consistent with international standards.

There have been some recent changes in our approach to enforcement in that continuing evolution. Our enforcement powers in relation to AML/ATF were expanded, giving us the ability to impose civil fines, and to cancel registrations, for breaches of AML/ATF regulations. We have also moved from the previous approach of applying the Authority's enforcement powers privately with impacted firms making some actions public last year in relation to firms that posed risks to consumers in the investment market.

Further, our review of the Authority's supervisory toolkit in relation to enforcement has also focused on the insurance sector. This activity included consideration of fitness and propriety standards for key functionaries within licensed insurance entities, and the proposal, as stated in our 2009 Business Plan, to issue separate guidance to the market in that regard. Since we have already put forward specific, enhanced requirements regarding the fitness and propriety of key functionaries in our new Insurance Code of Conduct and related Statement of Principles, which will be introduced during 2010, we have concluded that such guidance is not required at this time. In addition, our existing and proposed requirements in this regard are consistent with international standards.

Insurance Industry Developments

As lingering global market disruption and the impact of the financial crisis have been felt worldwide, the Bermuda market has maintained its characteristic resilience. Some firms have experienced losses over the past year although, in line with the downturn in international markets, these were primarily related to their investment portfolios. As was the case in 2008, slower incorporation rates were also evident last year, again, consistent with prevailing global trends. The economic crisis may have dampened direct premium growth somewhat during the year; however, there were encouraging signs of recovery in the overall trend of positive results reported by firms at the end of 2009. In addition, the continued underwriting discipline applied by companies within the Bermuda market throughout 2009 was not compromised. This high level of market discipline, coupled with the Authority's proactive, measured supervisory approach has contributed to overall stability of the insurance sector in Bermuda.

Having successfully maintained such stability, during 2010 consistent with the projects in development related to the strategic goal of regulatory equivalence, we intend to keep overall emphasis in our planned supervisory

initiatives within the sector on capital adequacy and risk management, as well as conduct of business. One project in this regard will be the development of an enhanced standard capital adequacy model for long-term (life) insurers. This development will enable us to apply risk-based capital adequacy assessments tailored specifically to the nature and risk profile of Bermuda's life insurers using this new model. This initiative will complement our implementation of the Bermuda Solvency Capital Requirement (BSCR) capital adequacy model for the property and casualty market in Bermuda and it builds on the effectiveness of our overall solvency regime for insurers. The framework changes planned for the year will continue to focus firmly on the commercial market. We currently do not foresee the need to amend the existing regime for captives as it remains effective within our risk-based regulatory approach and also consistent with international standards. Captives retain their position as core business in the Bermuda insurance market, and as such we will maintain our monitoring of international regulatory developments of relevance to the captive market during the year. This activity will involve dialogue with our regulatory counterparts, and standard-setters, in key jurisdictions. Our goal will be to ensure we both educate

them about Bermuda's risk-based captive regime and, via our work with international standard-setting bodies, to contribute the Authority's experience in captive regulation to deliberations about any potential changes in regulatory standards for captives as they may arise. We will also liaise with the market locally to ensure regulatory priorities are appropriately highlighted within their on going activities to promote greater awareness and understanding internationally about Bermuda as a captive domicile.

During 2010 we intend to continue building on our phased process of enhancements to the Authority's enforcement framework with a range of additional proposals. We will maintain consultation with the insurance market on proposals to expand our enforcement powers to include fining for breaches of the Insurance Act. We will also work to review the adequacy of our enforcement powers for the banking, trust and investment areas and with respect to breaches of the regulatory perimeter for unauthorised activity. We also intend to publish proposals regarding the publicity of enforcement action.

While this activity is comprehensive, it is not our intention to become an enforcement-led regulatory agency. In addition, we will explore further developments to the enforcement framework deliberately and in full consultation with industry.

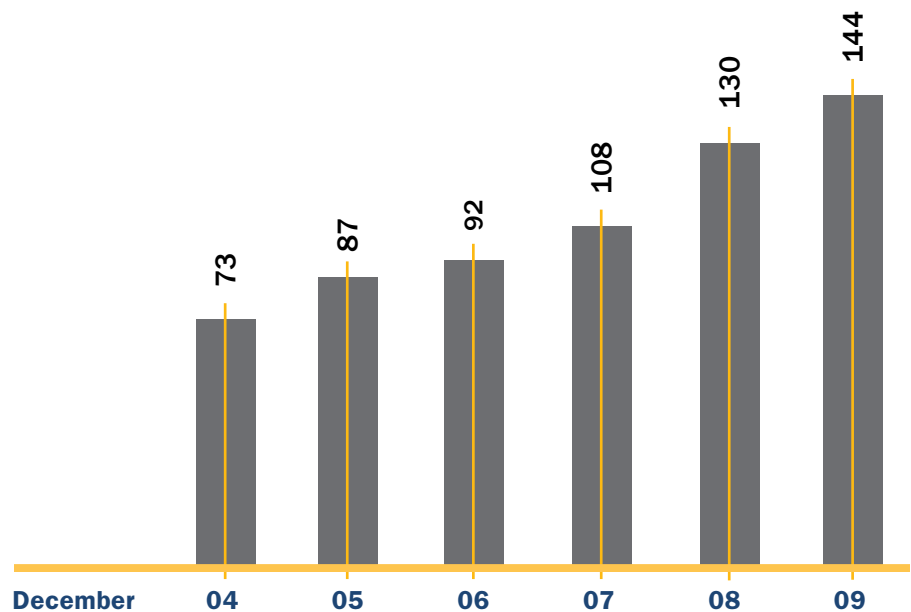
We will also apply a risk-based approach when taking action and use our enhanced powers and increased, dedicated AML/ATF and enforcement resources, to allocate our resources effectively and to pursue actions appropriately, as required. However, in the event that firms are uncooperative, or in cases of clear or severe regulatory or AML/ATF breaches we will take enforcement action to the full extent of our expanded powers, as necessary.

Building the Right Resources

Regulators worldwide continue to determine how best to meet the demands and increasing expectations of the international financial services environment. The drivers of regulatory change at the international level are varied and place added impetus on changes that are being made to national frameworks, and the resources in place to support them. Such drivers include the calls for more effective oversight and comprehensive regulatory reforms stemming from the global financial crisis. Another significant factor is the movement towards regulatory equivalence and even greater standardisation in supervisory regimes globally. In responding to these challenges regulators must not only enhance their frameworks in line with international standards, but also ensure that they have the appropriate technical competencies and resources to support effective implementation of those frameworks.

The Authority is keenly aware of these trends, as we conduct the continual review of our regulatory framework to ensure it remains effective for the Bermuda market, as well as being consistent with international standards. These changes also inform how we manage the Authority's operational

Bermuda Monetary Authority: Total Number of Staff 2004 - 2009



capability, and ensuring that our team has the support, knowledge and tools required to work as effectively as possible. Our strategic focus on operational capability has resulted in us building our professional team with this in mind, in order to ensure we have the depth of technical competency, experience and business acumen among our employees that is required in our constantly evolving environment. This in turn ensures that the Authority is able to meet its commitments and execute its responsibilities effectively. We have continued to achieve steady, managed growth to support this process, both in

the areas of acquiring and developing resources; at the end of 2009 the Authority had 144 employees.

Over the past year, we have concentrated such efforts within our regulatory departments and have successfully enhanced our in-house technical resources within our policy, supervisory, risk analysis and actuarial areas. These efforts were also supported by the implementation of a comprehensive learning and development framework. This has enabled us to make progress with developments in our policy framework and support for

related supervisory programmes very effectively. We recognise that as we shift focus moving into 2010 towards implementation of the enhanced supervisory regimes resulting from our policy development, further targeted growth in our resources will be necessary. Specifically, our work to prepare Bermuda for regulatory equivalence will require us to both implement key supervisory programmes, such as group-wide supervision, and to continue the next phase of relevant significant policy enhancements in that regard. If the Authority is to be deemed a group-wide supervisor for certain Bermuda-based entities we must ensure we are adequately resourced to be effective in that role. This will be particularly important as we transition to a regime that supplements our solo supervisory activity with group-wide supervision, initially to the Class 4 and Class 3B (re)insurance entities. Therefore we will be investing in a targeted recruitment programme to attract additional employees with the required high-level technical skills and supervisory experience specifically to support implementation of our group supervision framework. Our overall increase in staff for 2010 will also include senior-level additions to our policy and risk analysis teams. We will also support our teams

with increased knowledge and skills development activities during the year, with a particular emphasis on increasing technical competencies, bringing further expertise in these resources to the Authority.

Whilst we are actively addressing our changing resource needs in the short-term, our approach to managing the Authority's operational capability remains highly strategic. We will, for example, continue execution of the Authority's succession planning programme during the year, in terms of leveraging the experience, and addressing on going development, of our leadership team in line with the longer-term strategic goals of the organisation and our talent management. In addition, recognising that the operating environment in which the Authority conducts its responsibilities will continue to evolve and present new challenges, we have undertaken a strategic workforce planning exercise. This initiative is aligned with planned regulatory and strategic development for the Authority for the next three years. Our goal with this initiative is to identify and address workforce, development and organisational resource needs in order to facilitate successful execution of the Authority's strategic objectives. We are essentially reviewing our business model

to determine how the Authority should operate and the specific resources that will be required to do so by 2012. This timeframe is also aligned with some of our key operational requirements as regards achieving regulatory equivalence. The outcome of this activity will be a workforce action plan that will be produced by the end of the year, which will direct our developments in terms of human capital management, outsourcing or other organisational effectiveness and development changes the Authority will need in order to implement our strategic priorities successfully.

BMA Management Team as at January 1st 2010

Actuarial Services

Brant Kizer	<i>Assistant Director</i>
Richard May	<i>Assistant Director</i>
Gina Smith	<i>Assistant Director</i>

Banking, Trust & Investment

Graeme Dargie	Director
Courtney Christie-Veitch	<i>Assistant Director, BTI Financial Groups</i>
Tamara Anfossi	<i>Assistant Director, BTI Financial Institutions & Investment Funds</i>

Chief Executive Officer's Office

Jeremy Cox	Chief Executive Officer
Pat Phillip-Bassett	<i>Assistant Director, Corporate Governance & Communications</i>

Corporate & Financial Services

Marcia Woolridge-Allwood	Director
Terry Pitcher	<i>Assistant Director, Corporate & Financial Services</i>

Human Resources

Cynthia Currie	Director
Elizabeth Amyoony	<i>Assistant Director, Learning & Development</i>
Mesheiah Crockwell	<i>Assistant Director, Programme Implementation</i>
Verna Hollis Smith	<i>Assistant Director, Organisation Management</i>

Information Technology

John Dill	Director
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Insurance, Licensing & Authorisation

Shelby Weldon	Director
Judith Howe Tucker	<i>Assistant Director, Insurance, Licensing & Authorisation</i>
Leslie Robinson	<i>Assistant Director, Insurance, Licensing & Authorisation</i>

Insurance Supervision, Complex Institutions

Shanna Lespere	Director
Roderick Gray	<i>Assistant Director, Insurance Restoration, Run-off & Monitoring</i>
Susan Molineux	<i>Assistant Director, Insurance Supervision, Complex Institutions</i>
Suzanne Williams	<i>Assistant Director, Insurance Supervision, Complex Institutions</i>

Legal Services & Enforcement

William Kattan	Director
Cyralene Benskin-Murray	<i>Assistant Director, Legal Services & Enforcement</i>
Thomas Galloway	<i>Senior Legal Counsel</i>

Policy, Research & Risk Assessment

Craig Swan	Director
Yvette Pierre	<i>Assistant Director, Policy, Research & Risk Assessment, Risk</i>
Marcelo Ramella	<i>Assistant Director, Policy, Research & Risk Assessment, Research</i>
Fadwa Sahly	<i>Assistant Director, Policy, Research & Risk Assessment, BTI Analytics</i>

International Developments

The pace of change in international financial regulation continues and while on some fronts the nature of the changes 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 bodies such as the G20 and the Financial Stability Board, as well as the US 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 in influencing the standards related to them.

Participation in the international regulatory arena has always been important for the Authority, given that Bermuda has financial markets which contribute significantly to business around the world. The Authority remains aware of, and engaged in, the on going discussions about financial regulatory reform within the international regulatory community. We have played an active role in these debates through our participation in international standard setting bodies, such as the International Association of Insurance Supervisors (IAIS) for the insurance market, the International Organisation of Securities Commissions for the investment market, and the Offshore Group of Banking Supervisors for the banking industry. The goal of such participation is for the Authority to remain abreast of evolving international standards, and to actively contribute to the development of those standards.

Recently we have stepped up our participation and input to the work of these bodies, and this will continue throughout 2010. In particular we have increased our involvement with the IAIS, where we now represent Bermuda on a total of 13 IAIS committees, subcommittees and other working groups. Our work with such committees ranges from contributing to the publication of the IAIS Global Reinsurance Market Report to reviewing proposals for specific global insurance standards. The Authority was elected to the IAIS Executive Committee in October 2009, is also on the Technical Committee, and holds the Chairmanship of the Reinsurance Transparency Group and Vice Chairmanship of both the Insurance Groups and Cross-Sectoral Issues Subcommittee and the Reinsurance and Other Forms of Risk Transfer Subcommittee.

The Authority also maintains a series of formal and informal bilateral Memoranda of Understanding (MOU) with overseas regulators. Over the past year, based on our increased interaction and closer working relationships with the National Association of Insurance Commissioners in the US, we have established MOUs with the New York State Insurance Department, the Florida Office of Insurance Regulation, the Pennsylvania Insurance Department and the Nebraska Department of Insurance. In addition, the Authority was one of only three regulatory authorities approved as first-round signatories to the IAIS Multi-lateral Memorandum of Understanding

last year, the others being the Federal Financial Supervisory Authority (BaFin) of Germany and the Financial Supervisory Commission of Chinese Taipei. We anticipate establishing additional MOUs in the coming months as appropriate. Forging relationships with fellow regulators in this way supports the Authority's long-standing commitment to meeting international standards with regard to regulator-to-regulator cooperation and transparency, particularly in relation to the supervision of individual licensed firms.

Maintaining Efficient Operations

As the downturn in general economic conditions has continued, many organisations have responded with efficiency measures designed to ensure they are able to withstand financial or business pressures. The Authority has maintained our focus on continuing the prudent management of our operations, and achieving further efficiencies in our internal and external processes. From an internal standpoint, we have successfully achieved cost-efficiencies across the organisation over the past year. We have also used the Balanced Scorecard effectively, successfully cascading its use to departmental level. This has brought even greater focus within our departments on achieving the Authority's regulatory, service and operational objectives. In terms of the processes related to our regulatory work and other external transactions, we have been able to maintain a high level of responsiveness to stakeholders as we continue to meet the service standards we set for ourselves.

Meeting Service Standards

For the first time last year the Authority set public service standards for regulatory transactions that various departments conduct with the wide range of entities and financial institutions in the Bermuda market. We made the commitment to publish our performance on these standards, and Table 1 shows that the Authority has met all of the targets set for our service standards over the past year. For 2010, we will be setting similar targets with the exception of our corporate registration transactions,

which were enhanced during last year with the introduction of e-filing capability at the Authority. Table 2 shows the service standard targets we have set for 2010.

Effective IT Strategy and Development

Work on making further developments to the Authority's information technology (IT) systems has steadily progressed over the past year to support the phased implementation of our IT strategy. We completed an aggressive schedule of technological infrastructure development and systems enhancements across all departments within the Authority. We also developed and launched operational efficiencies from an external stakeholder perspective, with initiatives such as e-filing systems for both corporate registrations and the quarterly prudential information returns for Bermuda's banks.

During 2010, we will continue to leverage technology to enhance our operational and regulatory transactions with the market, one example being a project that will establish e-filing capability for investment funds. We will also embark on an initiative to improve the Authority's reporting, analysis and information retrieval capabilities, and effect greater efficiencies in the submission and processing of data for analytical purpose.

Established e-filing Capability

The Authority successfully launched its new automated e-filing and e-approval

system for corporate registrations last year, after extensive consultation with industry. The system enhances Bermuda's existing process for company incorporations by improving the speed of processing applications, while maintaining the integrity of our application review procedures.

The user-friendly system is web-based and is therefore easy and quick to access by all lawyers and corporate service providers across the island. Users may securely access the system via the BMA website 24 hours per day, seven days per week via an encrypted site, using username and password credentials provided by the Authority. Additional features of the system include electronic submission and approval of applications for incorporation, share issues and transfers; establishment of partnerships; tracking and monitoring of applications submitted by corporate service providers; and electronic approval or rejection of applications. The system has been well-received by the market and we envisage that the efficiencies gained from it will allow Bermuda to continue to be competitive as a company domicile, which benefits the jurisdiction as well as individual firms.

Further discussion regarding the corporate registrations process during the year continued on the related proposal to delegate the function of vetting beneficial owners to Corporate Service Providers under a licensing regime specifically developed for this purpose. The Authority and relevant

Table 1 - BMA Performance against 2009 Service Standards

Transaction	Service Standard	2009 Performance
Corporate Registrations:	90% Of Applications Within:	
- Company incorporations	- 24 hours	Met
- Listed (stock exchange) company incorporations	- 1 hour	Met
- Permit companies	- 2 days	Met
- Partnerships	- 2 days	Met
- Issues and transfer of shares	- 2 days	Met
Investment Fund Applications:	Process and approve 85% of applications for new funds or material changes within 6 business days	Met
Insurance Licensing and Authorisations²:		
- 2008 Class 4 company Statutory Financial Returns	100% to be completed by June 1st 2009	Met
- 2008 Class 3, 3A, 3B and Long-term company Statutory Financial Returns	100% to be completed by December 31st 2009	Met
- 2008 Class 1 and 2 company Statutory Financial Returns	100% of companies in risk-based sample to be completed by December 31st 2009	Met
- Registrations	90% to be completed in 3 business days	Met

² These service standards were set for year-end 2008 filings of Statutory Financial Returns (SFRs). Companies submit SFRs on a staggered basis throughout the year following the financial year-end. The initial submission deadline for 2008 SFRs was April 2009. In keeping with the BMA's risk-based approach, SFRs for Class 4 companies were reviewed first. An SFR review involves receiving the Return and conducting a financial analysis of its contents, as well as an assessment of the accuracy, completeness and fairness of each submission. Based on this review firms are subsequently contacted to confirm either that the Authority is satisfied with the SFR or that more information or action in relation to a submission is required, which could include meetings with company management.

Table 2 – BMA Service Standard Targets 2010

Transaction	Service Standard
Corporate Registrations:	
- Company incorporations	- 90% of registrations determined same day
- Listed (stock exchange) company incorporations	
- Permit companies	
- Partnerships	
- Issues and transfer of shares	
Investment Fund Applications:	
	Process and approve 85% of applications for new funds or material changes within 6 business days
Insurance Licensing and Authorisations³:	
- 2009 Class 4 company Statutory Financial Returns	100% to be completed by June 1st 2010
- 2009 Class 3B and domestic ⁴ insurance company Statutory Financial Returns	100% to be completed by July 1st 2010
- 2009 Class 3, 3A and Long-term company Statutory Financial Returns	100% to be completed by December 31st 2010
- 2009 Class 1 and 2 company Statutory Financial Returns	100% of companies in risk-based sample to be completed by December 31st 2010
- Registrations	90% to be completed in 3 business days

public and private sector stakeholders remain in the process of giving careful consideration to the implications of this proposal. As these deliberations continue the Authority still conducts this function.

Having successfully introduced an electronic system for the corporate authorisations and registration process, we intend to develop a similar facility in relation to Bermuda's funds sector, specifically to enhance reporting processes. This initiative aims to facilitate electronic filing of quarterly submissions from Bermuda fund administrators in relation to all regulated funds for review by the Authority. These submissions cover hedge funds, mutual funds and unit trusts. The proposed system will facilitate more efficient submission, analysis and tracking of the information fund administrators are required to report to the Authority to support our on going supervision of the sector. We will conduct market consultation on this initiative in the first half of the year. This will be followed by development of the new e-filing facility, with a view to complete testing and effect launch of the system by the end of the year. We will continue to explore ways in which the Authority can use such systems appropriately as we conduct our regulatory responsibilities. Our overall goal is to leverage technology in order to introduce and maintain systems that support both effective supervision and efficient regulatory transactions with the market.

³ These service standards are set for year-end 2009 filings of Statutory Financial Returns (SFRs). Companies submit SFRs on a staggered basis throughout the year following the financial year-end. The initial submission deadline for 2009 SFRs is April 2010.

⁴ Separate service standards have been set this year for Class 3B and domestic insurance companies in keeping with their risk profile.

Corporate Governance

The on going enhancement process in relation to the Authority's corporate governance framework advanced successfully throughout 2009. We have completed implementation of a formal Ethics Framework, building on existing internal codes of conduct for our Board and employees and consolidating them with new policies that together establish enhanced ethics standards for the organisation. In terms of our continued goal to enhance transparency in our operations, our inaugural public Annual Meeting, at which we presented the Authority's Business Plan and agenda of proposed regulatory developments to external stakeholders, was very well-received. We are pleased to be able to provide public and private sector participants in Bermuda's financial services sector with this opportunity to discuss our work plans for the year with our Executive team, outside the normal market consultation process for supervisory regime developments. Initiatives such as the Annual Meeting; publication of our Business Plan; commitment to public service standards; and implementation of formal feedback statements as part of our market consultation process have all contributed to us achieving enhanced transparency in our work over the past year.

We also conducted a comparative review of the Authority's corporate governance framework against relevant international standards and best practice during 2009. Our objective with this

review was to ensure that the Authority continues to follow international best practice and principles for corporate governance, as applicable to financial regulatory agencies. The results of the review showed that overall the Authority achieves a high degree of consistency with good corporate governance principles and practices. The organisation has in place a variety of effective structures and systems that are consistent with global corporate governance principles and best practice, whether prescribed by law or in arrangements within the Authority's governance framework, and the BMA's practices reflect general practice among regulatory agencies. However, in line with our focus on continuous improvement, we have identified some areas of our corporate governance framework for enhancement during 2010, based on the results of the review. These areas mainly relate to continuing to build transparency around matters such as Board policy and decision-making processes, and Board and employee codes of conduct; extending our formal technical training programme for the Board in relation to regulatory developments; building further enhancements into the Authority's risk gap analysis processes; and demonstrating our core responsibility in terms of consumer protection via implementation of specific public information initiatives. Addressing these areas will drive our corporate governance work plan for 2010. In addition, we will review the Bermuda Monetary Act 1969 during the year, to ensure that

the legislation governing the operations of the BMA remains appropriate and effective as the Authority continues to grow and evolve in terms of its role and supervisory responsibilities.

BMA Business Plan Milestones 2010

	Q1: 2010	Q2: 2010	Q3: 2010	Q4: 2010	Q1: 2011
Solvency II					
Economic Balance Sheet - Publish Discussion Paper - Publish Consultation Paper and draft legislation		◆			◆
Publish risk disclosure proposals Consultation Paper - Class 4, Class 3B		◆			
Implement BSCR standard capital model for Class 3B firms				◆	
Publish Consultation Paper for enhanced Long-term insurer capital and solvency framework			◆		
Publish ORSA Consultation Paper and draft legislation		◆			
Eligible Capital legislation			◆		
Publish Insurance Code of Conduct Statement of Principles			◆		
Group Supervision					
Publish Consultation Paper and draft legislation setting out proposals for insurance sector - Class 4, Class 3B	◆				
Host supervisory colleges for banks and insurers				◆	
Bank Liquidity Policy					
Publish liquidity policy Consultation Paper		◆			
Publish revised liquidity policy				◆	
Internal Models					
Launch pilot application and review process		◆			
E-filing – Enhanced Funds Reporting Process					
Conduct market consultation		◆			
Complete e-filing system development and testing			◆		
Launch e-filing system				◆	

BMA Business Plan Milestones 2010

	Q1: 2010	Q2: 2010	Q3: 2010	Q4: 2010	Q1: 2011
Enhanced Risk-based Supervision					
(1) Investment Funds					
Publish Discussion Paper setting out proposals for enhanced regulation of funds		◆			
Complete fund regulation review and publish final recommendations, including enabling legislation					◆
(2) Segregated Accounts Companies					
Publish Segregated Accounts Company enhanced reporting requirements Consultation Paper				◆	
(3) Anti-money Laundering/Anti-Terrorist Financing					
Begin 2010 AML/ATF on-site visits	◆				
Enforcement					
Publish enhanced enforcement measures Consultation Paper			◆		
Consumer Protection					
Deposit Insurance					
Publish Consultation Paper setting out proposals for deposit insurance in Bermuda		◆			
Finalise and publish terms of deposit insurance scheme, including enabling legislation				◆	

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