

Business Plan | **2009**

BMA



BERMUDA MONETARY AUTHORITY

	Foreword	02
Section One	Chief Executive Officer's Overview	03
Section Two	An Internationally Recognised Risk-based Framework: Planning for Regulatory Equivalence	06
Section Three	Enhancing Operational Efficiency	16
Section Four	A Professional Team	22
	Appendices	
	1: BMA Organisational Chart	25
	2: BMA Business Plan Milestones 2009	26-27

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.

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 \$249 billion, a banking sector with total assets of \$24 billion, as well as in excess of 1,400 companies in Bermuda's insurance market with total assets of \$440 billion, a market that wrote \$116 billion in gross premiums.

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

Chief Executive Officer's Overview

The Authority is publishing its 2009 Business Plan as the global financial system continues to witness dislocation not seen for more than a generation. Bermuda's financial markets have proved resilient in the face of this financial storm, but particular sectors and market participants have – and will continue – to face difficulties.

Managing the Financial Crisis

In the year ahead, the Authority will continue its active supervisory approach managing these challenges. While much of this work by necessity remains behind the scenes with individual firms, this Business Plan sets out some of our initiatives to strengthen the Authority's ability to respond to the crisis as it moves into a new phase. For example, our implementation of the Basel 2 framework for banks and our new solvency framework for insurers gives the Authority important new supervisory tools and improved risk and stress scenario information. Our progress with supervisory colleges and memorandums of understanding with other regulators is improving our capacity to work effectively with other jurisdictions, especially when managing challenged firms. Our plans also include a review of aspects of our supervisory on-site programmes, designed to strengthen our internal peer

review of assessments and to deliver swifter and more challenging feedback to firms after the conclusion of an on-site.

In the meantime, international efforts to draw lessons from the financial crisis are gathering pace and will lead to changes to the regulatory framework governing Bermuda's financial markets. As we explain in this plan, the Authority is continuing to step up its international representative work in various standard setting bodies to ensure that Bermuda's voice is heard in these debates.

Focus on Mutual Recognition

As the Bermuda market weathers the financial crisis, the Authority remains focused on an important medium-term goal: establishing the BMA as a leading risk-based financial regulator through a programme which ensures Bermuda's regulatory framework is recognised as equivalent by other key jurisdictions. Bermuda is already in a strong position, as evidenced by the IMF recently publishing favourable assessments of the regulatory framework for insurance, banking and securities. Our insurance supervision was described as demonstrating a "high level of compliance" with international standards, for example.

The Authority, with the strong support of government and industry, is preparing for even more exacting “mutual recognition” assessments for insurance regulation. Mutual Recognition is the process by which EU and US regulators will determine whether Bermuda’s framework is broadly equivalent to their own – and therefore Bermuda firms can enjoy non-discriminatory market access and avoid duplicative supervision.

This Business Plan sets out our mutual recognition work programme in considerable detail. In the first half of 2009, we will also publish a special report setting out our roadmap to equivalence under the EU’s forthcoming Solvency II Directive and explain our expectations of firms in this phase. Solvency II is not the only focus of our efforts, as we are working with individual US state supervisors and are preparing for the NAIC’s solvency modernisation and port of entry proposals, but it is currently both the most certain and the most demanding assessment on the horizon.

Our strategy is to focus on enhancements to the regulatory framework for large commercial insurers and reinsurers, while leaving the regime for captives broadly unchanged. It is also to avoid a process

of ‘xeroxing’ overseas standards but to adapt them intelligently for the Bermuda market through close consultation with market participants. The 2009 Business Plan highlights work to develop a framework for consolidated (or group) supervision, to enhance supervisory and public disclosure standards and to consult on aspects of the so-called Pillar 2 aspects of solvency regulation, namely qualitative review of risk management by both firm and supervisor.

The work programme for 2009 shows that the Authority, and Bermuda’s insurance market as a whole, are highly focused on the objective of mutual recognition and that Bermuda is one of the jurisdictions at the front of the pack to achieve regulatory equivalence.

Implementing New Anti-Money Laundering Standards

The past year has witnessed a major initiative by the Bermuda government, with the active support of the Authority, to enhance the regulatory framework for anti-money laundering (AML) and combating the financing of terrorism (CFT). A series of pieces of legislation have been adopted during the course of the year, supplemented by guidance, touching on various aspects of AML and CFT. Amongst these are provisions

setting more demanding standards on Bermuda’s financial services firms and granting the Authority broader powers for monitoring and enforcing compliance with these standards.

Looking ahead, the work of the Authority will shift from policy-making to focused on-site review of AML/CFT standards and taking enforcement action as necessary. The 2009 Business Plan explains that we have set up a dedicated AML review team and will conduct a series of focused reviews. These will provide a basis for feedback to the market on progress implementing the new standards and will establish a benchmark for follow-up enforcement activity, if that proves necessary.

Improving Operational Efficiency

The challenging financial environment and the pressures it places on the budgets of fee-paying financial firms highlights the importance of the Authority continuing to deliver its services efficiently and economically. While taking measures to ensure tight cost control and value for money, the Authority is committed to providing a high level of service to our stakeholders. One of the tools we employ is setting service standards for our various

regulatory transaction areas as part of our internal Balanced Scorecard targets for Authority staff. Our 2009 Business Plan sets out these standards publicly for the first time and we will report on our delivery in future Annual Reports. Our 2009 Business Plan also explains how we intend to improve the efficiency of our regulatory transaction areas by leveraging information technology and introducing e-filing, starting with our corporate authorisations function.

The Authority recognises the importance of ensuring that the regulatory framework in Bermuda allows market innovation by being sufficiently flexible and responsive to new developments, subject to appropriate minimum prudential standards. Our 2009 Business Plan explains that we will be publishing guidance on the regulatory standards for Special Purpose Insurers (SPIs) to provide clarity concerning the minimum regulatory standards involved with new product development in this market. We will also start a longer-term project to review parts of the Insurance Act which require updating.

Developing Professional Regulators

The challenges of the financial crisis, achieving mutual recognition, supervising

and regulating AML/CFT compliance and improving operational efficiency require not only a bigger Authority, which we have achieved successfully over the past year, but also a new skill set for our staff. Our plans for 2009 are to maintain roughly the same target headcount as last year, but to focus our remaining vacancies on skilled supervisory, policy, risk and quantitative resources that can deliver our new regulatory framework. We are reducing our use of outsourcing partners for most supervisory activities, although we plan on continued use of expert skilled assistance for review of economic capital models and other specialist activities.

We also continue to invest in our learning and development framework, with both individually sponsored study and centrally provided training. The latter covers both technical matters, such as solvency and economic capital modeling, as well as case studies and role playing exercises to strengthen interview and investigative skills. We also plan to continue to expand our graduate programme which started at the end of 2008.

Our goal is to develop a professional regulatory staff that has strong technical skills and a challenging approach to identifying and mitigating risk in the

Bermuda markets. This Business Plan is designed to chart a course through the current financial crisis to ensure that Bermuda continues to succeed as a leading financial market, supported by a leading risk-based financial regulator. The Authority looks forward to working with our stakeholders during the course of the year ahead on the plans that are set out in the pages that follow.

Matthew Elderfield

Chief Executive Officer
January 15, 2009

An Internationally Recognised Risk-based Framework: Planning for Regulatory Equivalence

The Authority's work plan over the past year and into 2009 is focused to a large degree on building the foundation for Bermuda to achieve mutual recognition, or equivalence, in key overseas markets for our regulatory framework. Mutual recognition 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.

Therefore a strategic priority for the Authority in 2009 and over the next few years is to achieve mutual recognition for Bermuda, with a focus on EU and US markets, and in particular for our insurance regulations. We have already taken steps in this regard, both in terms of increasing contact with our fellow regulators in those markets – via on going meetings, presentations and also hosting supervisory colleges – and continuing our programme of regulatory framework enhancements. We successfully hosted our first supervisory colleges in the fall of 2008, for three leading insurance companies and one of Bermuda's banking groups. Our goal with respect to this activity is to reduce regulatory inconsistency, and improve

dialogue and cooperation between ourselves and overseas supervisors who also regulate Bermuda institutions that are part of an international group. A supervisory college provides us with the opportunity to discuss issues and supervisory matters relevant to the group with our fellow regulators from abroad. It also supports our goals with respect to achieving mutual recognition status, allowing us to provide international regulators with a greater understanding of the Bermuda framework. We intend to conduct another supervisory college for selected Bermuda insurance groups during 2009.

Our work to make changes to achieve mutual recognition continues, with a focus on the insurance sector. While the most recent review of Bermuda's regulatory regimes by the International Monetary Fund concluded that Bermuda insurance regulations are highly compliant with international standards, the Authority's regulatory agenda remains geared to achieving mutual recognition in relation to key initiatives, with a particular focus on Europe's Solvency II Directive and developments at the US National Association of Insurance Commissioners (NAIC). These enhancements to our solvency framework and aspects of our on-site programme

also strengthen the Authority's ability to respond to the on going financial crisis, through improvements to our regulatory toolkit, such as improved risk management information.

Solvency II Equivalence

Solvency II is a risk-based, capital adequacy regime that will be applied to insurance companies based in Europe, which seeks to standardise and enhance the effectiveness of insurer solvency regulations and requirements across the EU. This Directive will also provide for group supervision of insurers and mutual recognition among EU states, enabling them to establish equivalence among their respective regimes, as well as those of non-EU countries. The Directive is important to Bermuda given the significant amount of re/insurance business conducted between Bermuda and Europe. A similar international initiative of importance to Bermuda regarding solvency matters is the NAIC solvency modernisation project. The NAIC proposes to review the US solvency system, and refine their regulatory framework, while assessing the impact of Solvency II on their markets. The focus in this assessment will be on capital requirements; international accounting; group supervision; valuation issues; and reinsurance.

Many insurance groups have branches or subsidiaries in Bermuda, various EU states and the US, conducting significant cross-border business. Solvency II and the NAIC proposals will be used by regulators in Europe and the US for mutual recognition purposes. Therefore, it is important to ensure Bermuda's solvency framework is broadly equivalent to such initiatives, to take advantage of the benefits of mutual recognition, and enable Bermuda companies to conduct business on non-discriminatory terms.

The Authority has already made significant progress in developing enhancements to Bermuda's solvency regime for (re)insurers, consistent with the requirements set under Pillars 1, 2 and 3 of Solvency II. The enhancements made during 2008 include the introduction of a risk-based solvency framework, standardized stress testing information on market and underwriting risks, capability to impose capital add-ons in cases of weak risk management and requirements for enhanced financial disclosure. These changes provide immediate benefits in terms of improving the Authority's supervisory toolkit to respond to the current financial crisis, as well as marking significant milestones on the road to mutual recognition. During 2009 we will complete implementation

of the Bermuda Solvency Capital Requirement (BSCR), our enhanced risk-based capital adequacy model. The BSCR reflects the requirements of Pillar 1 in that it calculates capital and solvency requirements taking into account the different types and levels of risk insurers are exposed to in their business. The legislative framework facilitating introduction of the BSCR was finalised at the end of 2008. To complete implementation during 2009 we will consult with industry regarding definitions of eligible capital. This will be part of a discussion paper on our proposals for group supervision – which will also be consistent with Solvency II – that we will circulate to industry for feedback early in 2009.

We will also conduct consultation with industry during the year regarding proposals that relate to Pillar 2, specifically the principles of the Own Risk and Solvency Assessment (ORSA). Those proposals will address how the Authority will evaluate insurers' self-assessments of their risks and their own determination of their solvency requirements. The goal is to develop a framework for insurers to conduct such qualitative assessments based on principles, standards and a Code of Conduct set by the Authority, and subject to the Authority's approval

and on going evaluation. We will conduct these evaluations as part of our supervisory process of on-site reviews, internal model approval and stress tests, with capital add-ons being applied as deemed necessary. We intend to issue consultation papers regarding ORSA proposals and the proposed Code of Conduct setting risk management standards in the third quarter of 2009.

Regarding Pillar 3, which deals with market transparency and discipline, the Authority is taking a phased approach. Pillar 3 seeks to ensure that all stakeholders in the market – whether policyholders, regulators or other interested parties – have access to information about insurers' risk profiles. As a first step, we introduced the requirement for Class 4 companies to file audited GAAP financial statements at the end of 2008, which we will be making public in the first quarter of 2009. The next phase will involve determining the principles and criteria for risk disclosure requirements that we will apply to insurers. The Authority will consult with industry throughout 2009 as part of our work to develop proposals for risk disclosure. This will include consideration of the recommendations made by an industry task force reviewing possible risk metrics for disclosure.

The principal focus of our efforts to date has been on revising the solvency framework for Class 4 insurers, i.e. the largest commercial insurers and reinsurers in the Bermuda market. With the completion of our Class 3 recategorisation process imminent (see below), we will soon be in a position to extend the BSCR regime to those firms that have a comparable risk profile to the Class 4 sector, the new Class 3B group, and to decide on our approach for Class 3A firms. We will set out our thinking as to the appropriate timetable for these changes at the end of the first quarter of 2009. This will be part of a broader market publication setting out a more detailed road map of our work on Solvency II equivalence over the next few years. This publication will also set out some high level expectations of firms in terms of the preparations they will need to make to implement the different phases of our solvency enhancement programme.

We are immediately starting to consider the changes required for long-term insurers, where the solvency regime has been unchanged for some time and is in need of reform. During the course of 2009, we will assess options for revising the long-term solvency framework and will set out our thinking in a discussion paper by the end of the year.

Group Supervision

The Authority has maintained an active dialogue with our supervisory counterparts overseas, and participation in international discussions with the International Association of Insurance Supervisors (IAIS), regarding group supervision of insurance companies. Over the past year the issue of group supervision has become increasingly important within the global regulatory environment. This is consistent with the focus internationally on the principle of mutual recognition and, in Europe specifically, driven by the Solvency II Directive which will consider group supervision provisions in its equivalency assessments of non-EU countries regulatory frameworks.

We have continued our planning for the introduction of group supervision for insurers in Bermuda. Since the Authority is the home supervisor for a number of large Bermuda-based insurance groups, we hosted a supervisory college in the fall of 2008 with overseas supervisors responsible for regulating these groups in other jurisdictions. This has provided the platform for on going discussions about the risk profile of these groups and other relevant matters with those supervisors throughout 2009. We will also consider the results of research and discussions we have conducted with firms to date,

and which will continue through 2009, in developing our proposals for a group supervision framework.

Our proposals will seek to address key items such as the appropriate definition of a group; regulatory requirements for group solvency; home-host supervisor interaction; and ensuring that Bermuda's standards are broadly equivalent to the international standards being developed for group supervision. Since the Authority now represents Bermuda in the Vice Chairman position of the IAIS Insurance Groups and Cross-Sectoral Issues Committee, in 2009 we will also continue our active participation in the deliberations on the IAIS standards, which remain in development.

Given the complexity of this issue, and the significant implications of introducing group supervision successfully our goal remains to introduce the framework in 2011. We intend to issue formal consultation to industry on our proposals for group supervision, in the form of a discussion paper in 2009 and a consultation paper in the first quarter of 2010. In the interim, we will continue to take into account group-level controls and governance in our risk-based on-site reviews of insurance companies.

Internal Models

In addition to introducing the Bermuda Solvency Capital Requirement (BSCR), we have made steady progress with our plans to implement a framework for also permitting use of insurers' internal models to determine regulatory capital requirements (RCR).

Our proposals seek to ensure that the standards we set for Bermuda in this regard are consistent with applicable standards and best practice internationally. There are lessons to be learned from the shortcomings of models that have been evident from the current financial crisis. Our work is designed to develop prudent minimum criteria for the use of internal models that address these weaknesses, while still encouraging innovation in risk management practices. The BSCR has been set as a standard model that reflects the average inherent business risk of Bermuda's Class 4 reinsurance market. However, under our proposed framework where an insurer can demonstrate that its own internal model better reflects the inherent risk to its business, it may make application to the Authority to use its model to determine the RCR.

To support this proposal, the Authority has been working to develop a standard

process for reviewing and approving internal capital models. We completed the first phase of development for this initiative towards the end of 2008, conducting a survey of Class 4 insurers to determine the full extent to which internal capital models are being used within industry and the quality of those models. We also conducted on-site reviews of a small number of company models as part of that process.

During 2009 we will move forward with the second phase of development using the results of this initial activity, which we published in a market report late in 2008. This next phase will involve developing the standards and procedures that will enable the Authority to receive and assess company applications under the internal models framework. The assessment will be based on, among other matters, the extent to which the internal model is integrated into a company's risk management programme; the governance processes and controls applying to the model; and whether the model is appropriate for determining regulatory capital requirements.

The Authority will provide recognition of an internal economic capital model for regulatory purposes if it is assured that all relevant minimum standards are met and that an adequate track record of

reliable risk management information has been established. We will publish standards in 2009 concerning the transitional period before full reliance on an internal model is permitted.

Adopting an internal models-based approach for regulatory capital is a significant commitment for insurance firms and will require sustained effort to meet minimum standards, even for firms with relatively well developed modeling capacity. Introducing this framework will also require changes at the Authority. We are continuing to grow our actuarial and risk teams and to invest in technical training for our supervisory staff. We are also centralising key decisions on modeling issues in a Risk Committee comprised of senior staff and chaired by the CEO or Deputy CEO. Firms that seek internal model approval will be required to pay a special fee of \$50,000 that will be used to fund consulting actuarial resources to supplement our own staff.

Insurance Industry Developments

The Bermuda market has demonstrated resilience in the face of the challenging market conditions driven by the global financial crisis, and continues to do so. Given the turmoil in financial markets there has been a slower rate of new incorporations globally. We have also experienced this in Bermuda, as companies remain focused on managing their businesses through the prevailing soft cycle (which may be starting to turn), while maintaining a disciplined underwriting environment. The market has had limited direct investment exposure to sub prime, but most firms have suffered substantial mark-to-market losses in their investment portfolios due to overall market conditions. A small number of firms had significant underwriting exposure through their financial guaranty business and have required close monitoring by the Authority. We are continuing to assess exposure to D&O and E&O claims. We are working closely with the local and corporate management of AIG to manage the impact of the financial crisis on the firm, given its substantial presence in Bermuda.

Overall, however, the market has so far managed to absorb losses related to the economic downturn, as well as those related to catastrophic events

such as Hurricanes Ike and Gustav. Clearly, continuing risks remain from the financial crisis for the market as a whole, and certain sectors in particular (such as long-term insurers with substantial market risk exposure) will require a continuing supervisory response from the Authority.

The Authority has taken a proactive role since market disruption occurred in August 2007 through a combination of specialised market surveys, stress testing, enhanced supervisory monitoring, and restructuring negotiations with challenged financial guaranty companies. We have worked closely with market participants and international regulators to manage the impact on Bermuda's financial markets.

We intend to build on the lessons learned throughout this experience to develop further the opportunities for practical regulatory responses for the Bermuda market. For example, last year the Authority issued guidance on reserving to the financial guaranty sector to assist the market in the initial phase of the financial crisis.

We also plan to review and strengthen procedures for approving Appointed Actuaries and Loss Reserve Specialists;

develop enhanced techniques for monitoring and assessing catastrophe exposures; and work with industry and professional bodies to develop guidelines for determining diversification benefits.

Our goal is to be prepared for the next phase of the financial crisis with effective regulatory initiatives and to assist companies with appropriate guidance, in addition to maintaining a high level of vigilance to ensure prudence and discipline is sustained in the market.

Basel 2

With respect to the banking sector, our work to prepare for the introduction of the Basel 2 regulatory capital framework in Bermuda progressed steadily throughout 2008, and the new policy and reporting frameworks were in place and ready for implementation as planned, with effect from January 1st 2009. The Basel 2 Accord introduces an enhanced supervisory framework for banks, and some investment firms to which Basel 2 will apply. Those institutions now have to comply with new minimum capital requirements based on revised criteria under Basel 2. The method for setting those minimum capital requirements has also changed under the Accord. The framework also provides that supervisors should take into account the quality of governance, internal control and risk management processes in banks when setting minimum capital requirements. Since Basel 2 has been widely accepted around the world as the next evolution in global standards for banking supervision, implementing these changes means that Bermuda's regulations remain consistent with international expectations.

We now have in place the revised policy framework revisions required to implement in Bermuda the three 'pillars' that form the Basel 2 framework. After

extensive consultation with industry, the Authority published a handbook providing details of that framework, which we will use as of 2009 for conducting capital adequacy assessments under Basel 2. The handbook sets out in a single policy document our final rules for Pillars 1 and 2 of the Accord. Pillar 1 provides new rules for calculating the base capital requirement for institutions. Pillar 2 sets out the process under which the Authority reviews how institutions assess the amount of capital they should hold, given the full range of risks they are exposed to, and the quality of controls they have established to mitigate those risks. The Authority has also published in final form the revised reporting framework for Basel 2 capital adequacy reporting on credit, market and operational risks, together with related guidance notes.

The industry used this handbook and guidance to prepare their institutions for implementation as of January 2009, since Basel 2 requires all institutions that come within its scope to make changes to their internal processes and to comply with revised supervisory and reporting requirements that the Authority will now be applying. The Authority has maintained an on going dialogue and held regular meetings with the institutions concerned, identifying

and addressing issues of concern early. This close liaison has meant that both the Authority and the impacted institutions have been fully prepared for implementation of Pillars 1 and 2.

As part of our work to ensure Bermuda's financial sector can respond appropriately to the on going global financial crisis, we have also set some specific additional requirements for the banks that relate to Pillar 2. The Authority has required that banks conduct a series of stress tests in relation to the possible impact of the potentially prolonged global economic downturn and losses in their investment portfolios. The results of this activity will be taken into consideration when we set Pillar 2 capital requirements for the banks. This work will continue through 2009 and enable us to ensure that Bermuda's banks continue to be well-capitalised for the next phase of the financial crisis.

The implementation of proposals for Pillar 3 of the Accord, which deals with market discipline and disclosure is in progress. Pillar 3 has the objective of seeking to strengthen market discipline by providing a common and consistent reporting framework for assessing and comparing the underlying risks to which banks are exposed. It is designed to

Banking, Trust and Investment Developments

In response to the global financial crisis, the Authority intensified its supervision of the banking sector in 2008 and enhanced monitoring will continue in 2009. There has been little evidence to date of any deterioration in domestic credit conditions and the sector as a whole has proven resilient, with capital levels and liquidity holding up well. Nevertheless, the Authority has been reviewing capital levels across the industry and, as part of this work, has requested all banks to undertake stress-tests simulating a range of potential scenarios, including a severe domestic economic downturn. The results will be used to inform our on going dialogue with individual banks about capital levels and potential risks in their business. This dialogue would have occurred in any event as part of the Pillar 2 review process but the Authority has brought the exercise forward as a proactive response to the global financial crisis.

The Authority has also enhanced its supervision of the funds sector in response to evidence that a number of hedge funds were being adversely affected by the financial crisis. This enhanced supervision will continue in 2009. In addition to maintaining monitoring activity through regular dialogue with industry contacts, the

Authority will continue the roll-out of its on-site inspection programme of visits to fund administrators in 2009. The Authority has also, in conjunction with industry representatives, started a review of the Investment Funds Act 2006. Any legislative amendments coming out of this review will be tabled for implementation in 2009.

In the trust and investment business sectors, the Authority will be conducting more on-site visits in 2009 than in the previous year. In keeping with our risk-based supervisory approach the focus will be on those firms where the Authority has identified a potentially heightened risk exposure. For example, the Authority will be examining practices in a number of investment firms active in the local market, checking for compliance with the codes of conduct covering advertising and general business behaviour, with an emphasis on the fair treatment of customers.

Given the priorities related to monitoring the impact of the global financial crisis on Bermuda during 2008, the Authority began the process to update Bermuda's credit union legislation later in the year. Modernising the legislative and policy framework has involved conducting extensive research to assess

relevant standards and best practice internationally in this regard. This work has provided the platform for developing updated policies and consultative drafts of the proposed legislation. The revised framework will provide for regulation of credit unions to be completely under the responsibility of the Authority. Under the current framework, we conduct supervisory functions in relation to Bermuda's one credit union on behalf of the Ministry of Finance.

The new framework will encompass existing and enhanced regulatory provisions for credit unions, including minimum licensing criteria; fit and proper standards for management; governance criteria; and risk management requirements (i.e. in relation to credit, liquidity, operational and other relevant risks).

The Authority intends to conduct consultation with the BIU Members Credit Union, the Ministry of Finance and other interested stakeholders on the proposed framework through the first quarter of 2009. We anticipate that the new legislation will be tabled in Parliament by the end of 2009.

encourage institutions to establish formal disclosure policies outlining their approach to market discipline and includes methods for supervisors to assess the effectiveness of those policies. The Authority has taken into account the approaches to Pillar 3 generally being adopted among jurisdictions, and the feedback received from detailed industry consultation in developing these proposals for Bermuda. We intend to complete development of the proposals and implement our Pillar 3 rules by mid-2009.

Since institutions will be required to submit statutory filings under the new reporting requirements as of 2009, the Authority will be monitoring the effectiveness of the systems and procedures established to support that process throughout the year. We will conduct a formal review and evaluation of these systems in the second half of the year.

Risk-based Supervision

The Authority's practical, risk-based regulatory approach is key to the effective application of regulation in Bermuda. It allows us to use our supervisory resources efficiently – in applying our risk-based supervisory models for regulating banking, insurance

and investment entities – and to differentiate between wholesale and retail businesses effectively in order to apply greater levels of resources to firms with higher risk profiles.

This approach has been endorsed by a variety of international regulatory and standard setting bodies including, most recently, the International Monetary Fund in its 2007 assessment of Bermuda's regulatory regimes for the financial services sector. We were very pleased to note the IMF's Report acknowledged that Bermuda has made impressive progress in developing, and implementing, a risk-focused approach to supervision across the range of markets that form Bermuda's financial services sector. During 2009, we intend to maintain our continuous review of the Authority's risk-based frameworks, and build on enhancements to key elements within them, to ensure they remain effective.

We continue to apply our on-site supervisory reviews on a rolling schedule to banks, trust companies, investment firms, fund administrators, money service businesses and insurance companies.

We also successfully expanded the insurance on-site programme to selected Class 3 insurers over the past year.

Last year we conducted a review of our authorisation and licensing process to enhance our supervisory processes. In 2009 we will conduct a similar review to aspects of our on-site programme. This project is designed to result in enhanced efficiencies within the on-site assessment process. It is also designed to add further depth and analytical rigour to our internal peer review of assessments via a new Risk Committee that we will establish which will comprise senior staff from our regulatory and risk analysis areas. The project will also aim to deliver faster turnaround times for reports by making changes such as establishing internal service standards for staff, providing firms with a specified period for factual comments on assessment conclusions and finalising assessments rather than waiting for firms to conduct remediation work. We also aim to change the format of our on-site reports to provide more challenging feedback to firms subsequent to the on-site visit. These changes will enable the Authority to improve the efficiency of its on-site programme while also enhancing our capacity to respond to the on-going financial crisis.

In addition to expanding the on-site programme for Class 3 insurers, the Authority has successfully introduced

new classification categories for these companies. The recategorisation has further segregated the wide range of Class 3 companies operating as commercial insurers, based on their risk profile, as follows:

Class 3 - Captive Insurers writing unrelated business - this includes

insurers whose percentage of unrelated business represents more than the 20% threshold applicable to Class 2 insurers, but less than 50% of unrelated business net premiums written.

Class 3A – Small Commercial Insurers

- a. This include those insurers whose percentage of unrelated business does or is expected to exceed 50% of net premiums written and/or net loss and loss expense provisions, and
- b. Where the unrelated business net premiums do not or are not projected to exceed \$50,000,000.

Class 3B – Large Commercial Insurers

- a. This includes those insurers whose percentage of unrelated business does or is projected to exceed 50% of net premiums written and/or net loss and loss expense provisions; and
- b. Where the unrelated business net premiums do or are projected to exceed \$50,000,000.

This recategorisation will allow the Authority to apply enhanced supervision, such as on-site inspections and BSCR solvency requirements, appropriately to the higher impact firms within the new categories. This means that Class 3B companies will now be subject to on-site reviews, in addition to Class 4 insurers. We intend to increase resources to support this expanded on-site work by adding a supervisory team within the compliance area of the Insurance department in 2009. The Authority has begun to process applications for re-categorisation under the new structure and will be issuing Certificates of Registration to companies in March 2009.

Anti-Money Laundering and Combating the Financing of Terrorism

Work on the Bermuda Government's initiative to enhance Bermuda's regulatory framework for anti-money laundering and combating the financing of terrorism (AML/CFT) has progressed significantly over the past year. The Authority has been actively involved in developing legislative and policy enhancements that provide the foundation for this framework, and the new regulatory standards that apply within it. This has been a very productive

collaborative effort between us, the Ministry of Finance and the Ministry of Justice, with the active support of the National Anti-Money Laundering Committee. It has also involved extensive consultation with industry.

The Authority has been charged with additional supervisory responsibilities and powers within the AML/CFT framework under the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008. This legislation specifically gives us powers to register unlicensed financial institutions for the purposes of AML/CFT supervision; monitor financial institutions for AML/CFT compliance; conduct enforcement action as necessary; and cancel registrations or impose civil penalties for breaches of the AML/CFT regulations.

With the overall policy framework now in place the Authority will be focused in 2009 on conducting AML/CFT on-site reviews across industry sectors, and follow up enforcement activity, as required. We will establish a dedicated anti-money laundering and anti-terrorist financing unit (AML/ATF Unit) working under the direction of the Director, Legal Services and Enforcement. The Unit will be staffed by experienced officers assigned to AML/CFT duties within

the Authority. Subsequent to the initial round of AML/CFT on-site reviews, the Unit will provide industry with feedback on their findings, and direction with respect to any improvements or changes deemed necessary within individual institutions. We expect that the AML/AFT Unit will continue to work with financial institutions in developing best practice and general guidance as to compliance with the legislation and regulations, based on experience and precedents set subsequent to implementation of the AML/AFT on-site regime. Our intention is to allow institutions to make adjustments for a certain period as they transition to the new standards before commencing enforcement action, unless we see egregious cases of poor compliance. We plan to begin the series of supervisory on-site visits to firms in the second quarter of 2009.

Enforcement

Currently the Authority has a range of supervisory and enforcement powers which it may use to address issues with firms that are not compliant with our regulations. Existing legislation provides for powers such as cancellation of licenses, removal of senior officers, directors and controllers or giving directions to licensed firms. The Authority has used this range of powers

effectively to take action when necessary to protect the stability of Bermuda's financial markets.

However, we wish to ensure that our supervisory toolkit in this area – that is, our enforcement processes and procedures – remain effective and practical, given changes in market conditions and the international regulatory environment. In addition, our priority is to maintain consistency with international standards and best practice in this area, and ensure our enforcement processes are also aligned appropriately with those of other regulators to support our goals regarding mutual recognition.

Consultation with industry is an important element of this initiative and will take place in various phases over the next couple of years. The Authority intends to ensure we consult as widely as possible before recommending any legislative changes to enhance our enforcement responsibilities. We also plan to take lessons from implementation of the AML/CFT legislation through 2009 before proposing legislation for new fining powers in relation to our overall supervisory framework. The Authority has recently issued a discussion paper to the insurance market as the first phase of the consultative process. We will be

consulting with banks, trust companies and investment firms, and will also issue a discussion paper regarding perimeter issues, through to mid-2009. Other related preliminary actions to support this initiative during the year will include an internal database that will centralise information on parties who have participated, or attempted to participate, in the market about which the Authority has had concerns with respect to fitness and propriety. We also intend to establish enhanced guidance on fitness and propriety, building on existing directions in this regard. These initiatives should be in place by the third quarter of 2009. We intend to complete research and comparative analysis with respect to enforcement tools for prudential supervision, including those we will use for the Authority's AML/CFT supervisory reviews, by the end of 2009.

Enhancing Operational Efficiency

The volatile and challenging market conditions over the past year have brought into even greater focus the need for organisations to manage their operations prudently, with an emphasis on managing risks effectively. We believe it is important that the Authority continues to conduct its work and discharge its responsibilities as efficiently and cost-effectively as possible. Our goal always is to achieve this from a service perspective – in terms of responsiveness and delivery to stakeholders – as well as from an accountability perspective, in relation to our duties as both a regulatory and monetary authority. Maintaining strong internal controls and a robust risk management framework also remains a priority for the Authority.

In addition to conducting our supervisory role in line with key service standards and targets set in the Authority's internal Balanced Scorecard, we have also maintained tight control and management of our responsibilities outside of financial supervision. Those responsibilities include management of a substantial investment portfolio; conducting currency operations and issuing Bermuda notes and coin; and vetting company incorporation applications on behalf of the Ministry

of Finance. In this way, we continue to support the overall efficiency of Bermuda's economy, as well as meeting our operational goals.

Setting Service Standards

The Authority is committed to providing a high level of service to our stakeholders as we conduct our responsibilities. To support this goal, we have set service standards for the regulatory transactions a number of our departments conduct with firms and other entities across Bermuda's financial services sector. Our objective is to conduct those transactions efficiently, while also maintaining high regulatory standards. What this means is that while we seek to be efficient and responsive, we will not sacrifice quality control and thorough vetting and/or review of the matters being processed. It should be noted that meeting these standards is predicated on an application being complete when it is received by the Authority, with all relevant information in place and the application in line with applicable minimum requirements.

The following table shows the service standards that have been set for 2009 for a range of regulatory transactions:

Transaction**Service Standard****Corporate Registrations:**

- Company incorporations
- Listed (stock exchange) company incorporations
- Permit companies
- Partnerships
- Issues and transfer of shares

90% Of Applications Within:

- 24 hours
- 1 hour
- 2 days
- 2 days
- 2 days

Investment Fund Applications:

Process and approve 85% of applications for new funds or material changes within 6 business days

Insurance Licensing and Authorisations¹:

- 2008 Class 4 company Statutory Financial Returns 100% to be completed by June 1st 2009
- 2008 Class 3, 3A, 3B and Long-term company Statutory Financial Returns 100% to be completed by December 31st 2009
- 2008 Class 1 and 2 company Statutory Financial Returns 100% of companies in risk-based sample to be completed by December 31st 2009
- Registrations 90% to be completed in 3 business days

We invite industry to comment on these service standards and intend to publish the Authority's performance against them in our Annual Report.

The Authority does not set a service standard for processing applications for licensed firms given the wide range of types of applications we receive. Where applications are straight-forward, with clear precedent and an inherently lower risk profile, the Authority endeavors to respond quickly, provided an application is complete. The Authority's Authorisation & Licensing Committee meets weekly to ensure that applications can be reviewed promptly and feedback provided swiftly.

The Authority is planning to develop guidance on its approach to Special Purpose Insurers (SPI) and will consult with the market on this by the end of the first quarter of 2009. This guidance is designed to provide clarity as to the minimum prudential requirements for the new SPI class that was introduced in legislation in 2008, so that market participants can put forward applications for side cars, cat bonds and other SPI structures that demonstrate compliance with Authority standards and therefore can receive rapid approval. The Authority regards the improvement of our operational efficiency, and specifically

¹ These service standards are 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 is April 2009. In keeping with the BMA's risk-based approach, SFRs for Class 4 companies will be 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.

enhancing the processes that support our regulatory transactions, as an important on going initiative. In 2009 we will begin to use technology to assist that process by initiating e-filing, permitting market participants to submit applications or filings in standardised electronic format through web-based applications. We envisage that e-filing will bring even greater efficiency to our submissions, review and approvals processes for a variety of applications and statutory filings related to our supervisory regimes. E-filing should eventually facilitate an easier and more convenient method of submitting statutory filings for stakeholders. It should also enhance even further the Authority's ability to produce timely statistical information for the purposes of its own reporting and analysis activities.

However, we intend to introduce this facility using a phased approach that will include extensive research, which is already in progress, as well as industry consultation. Our strong commitment to maintaining the integrity of our vetting, review and approvals process will not be compromised with the introduction of e-filing.

We currently intend to establish e-filing in the first instance for our corporate registrations process, and we will continue consultation and undertake the preliminary activity on this proposal during 2009. We will extend our e-filing to other areas over the next few years.

Corporate Registrations Enhancement

The Authority remains the first access point for any international

company that wishes to operate from Bermuda. We recognise, therefore, that the effectiveness of our corporate registration process contributes to Bermuda's competitive position and international reputation as a domicile. Having completed a review of the Authority's corporate registration processes, we have over the past year successfully introduced some efficiencies that have had a positive impact on our service to stakeholders.

However, we regard this as the preliminary phase of enhancement to the corporate registration process, which currently could benefit further from leveraging technology to support the transactions and communication with stakeholders related to that process. Implementing further improvements to the process will also support Bermuda's competitive position as a domicile of choice for corporate registrations. Therefore, we intend to implement further changes to the process during 2009 as part of our overall goals for improving the Authority's operational efficiency.

Throughout 2009 we will conduct on going review and consultation activities in order to streamline the corporate registration process through the use of technology, specifically the ability to accept electronic filings. Our goal will be to transform the current paper based processes for corporate registrations and share transfer applications to an electronic process. The e-filing system will enable the Authority's staff to review, approve, and reject applications electronically. It will also complement an additional electronic fee payment

system the Authority plans to introduce as part of this initiative. This system will allow Corporate Service Providers to pay incorporation application fees via a draw down system after setting up an account with the Authority. This new system would facilitate electronic signatures as well as an electronic 'date stamp' from the Authority to acknowledge receipt of the funds.

Towards the end of last year the Authority issued a consultation paper to industry regarding the e-filing proposal. We will build on the results of this consultative phase during 2009 with work to determine which technological, logistical and security options for an e-filing framework will be the most appropriate for, and consistent with, Bermuda's standards.

The consultation paper also addressed another proposal for changing the registration process, i.e. delegating the function of vetting beneficial owners to Corporate Service Providers under a licensing regime specific to this function. The Authority maintains the view that the BMA should retain this function, while introducing e-filing for the registration process to support even greater efficiencies. However, no final decision on this proposal regarding CSPs will take place until the market has a full opportunity to provide feedback on this issue. If indications from the market are that the function should be delegated, we will review the position and hold further detailed discussions with both public and private sector stakeholders.

International Developments

Bermuda remains fully engaged in the on going discussions and developments that are driving change and implementation of regulatory standards and initiatives internationally. Being able to contribute to and actively monitor such changes has never been more important, given the significant issues currently under consideration within the international regulatory arena, such as mutual recognition, group supervision and solvency matters, which are of direct relevance to Bermuda. Our participation enables us to ensure we can provide a pragmatic, balanced perspective to the debates surrounding such issues, based on our experience of successfully applying risk-based regulation to Bermuda's sophisticated financial markets.

We have placed added focus on increasing our participation and input to important international regulatory bodies over the past year, and this will continue throughout 2009. Most notably, we have expanded our membership and contribution to key committees of the International Association of Insurance Supervisors (IAIS). The Authority now has representation on 11 IAIS committees covering critical areas such as actuarial and solvency matters, mutual recognition, group supervision, transparency and disclosure issues, accounting standards and corporate governance.

Senior staff of the Authority will continue to participate in meetings of the IAIS committees and working groups during 2009, including the Technical Committee, the Reinsurance Transparency Sub-Group (as Chairman); the Reinsurance and other

forms of Risk Transfer Sub-committee (as Co Vice Chairman); the Insurance Groups & Cross-Sectoral Issues Sub-committee (as Vice Chairman); and the Solvency and Actuarial Issues Sub-committee. We will also continue to serve on the Task Force for Review of Insurance Core Principles, and the Interim Signatories Working Group of the IAIS MMoU.

The Authority will also maintain an active dialogue with our supervisory counterparts and key standard setters in Europe, with a particular focus on developments regarding Solvency II. Our attention remains focused on supporting development of the requirements for granting and achieving third-country equivalence under the Directive. With respect to the US, the other key market for Bermuda in terms of international business, we have over the past year successfully built closer working relationships with the National Association of Insurance Supervisors and US state insurance commissioners. This is the result of proactive and regular contact with fellow supervisors, as well as working with relevant insurance commissions with respect to insurance groups impacted by the sub prime issue. We intend to continue building on this high level of contact and cooperation within the US regulatory environment to ensure that Bermuda can provide assistance as relevant to the development process for proposed changes to US insurance regulation.

We also intend to continue participation in discussions that will take place throughout 2009 at meetings of key regional and international regulatory groups related to the banking and

securities sectors. In this way we will maintain our close monitoring and involvement in discussions at the global level regarding regulatory policy development and supervisory practices for banking and securities regulation. This of course has even greater significance given the serious market dislocation that has impacted the banking sector and equities markets around the world. Bermuda must be fully attuned to the international regulatory proposals or new standards that may emerge in response to this financial crisis and possibly require changes to our framework.

The Authority has maintained active monitoring of global banking matters via participation in meetings such as the International Conference of Banking Supervisors, and the Offshore Group of Banking Supervisors. We also became an associate member of the Caribbean Group of Banking Supervisors at the end of 2008, and we look forward to making contributions to the deliberations of this group in the coming months. We also anticipate taking part in the activities of the International Organisation of Securities Commissions, the Council of Securities Regulators of the Americas and the Caribbean Group of Securities Regulators.

By continuing to increase our work with such bodies, and the active working relationships we have with our regulatory counterparts overseas, we will ensure that Bermuda can make a positive contribution to the development of international standards and support cooperation among financial regulators.

New Banknotes Launch

Towards the end of last year the Authority publicly revealed the new redesigned Bermuda banknotes series. The new series represents the first design change to Bermuda's note currency since the Bermuda dollar was introduced in 1970. The new notes bear distinctive colours and designs that reflect characteristics of Bermuda's flora and fauna, as well as well-known landmarks from around the island. Another distinguishing feature is that they are also vertical. Importantly, the notes incorporate cutting edge security features that combat counterfeiting, including a new watermark, a variety of special images in electrotype, latent and fluorescent formats, and an OPTIKS thread. Bermuda will be the first country in the Western Hemisphere to have this state-of-the-art OPITKS feature in its banknotes.

The launch of these new notes complements the BMA's 40th anniversary and the 400th anniversary of Bermuda's settlement, which the Authority will recognise with various activities throughout 2009. The Authority has been conducting a public awareness campaign to ensure the community is familiar with the new series and prepared for when the notes are issued. Bermuda's current banknotes will remain in

circulation for several years subsequent to the Authority issuing the new series, which will take place early in 2009.

Enterprise Risk Management(ERM)

The Authority continues to update and improve its internal control documentation and address the opportunities for enhancements identified in its previously conducted assessment of ERM processes within the organisation. In 2008 we worked through a significant number of action points from our ERM assessment and we will continue this process in 2009, focusing on information technology issues. Our internal audit process will assess progress against these issues on a rolling basis, systematically checking on the adequacy of internal controls and identifying residual risks.

External Stakeholders Survey

The Authority conducted a market survey during the second half of 2008 designed to better understand the views of external stakeholders that interact with the organisation. Survey respondents represented the public and private sector, the latter including banks, trust companies, investment businesses, fund administrators, professional service providers and firms within the insurance

market. Our intention was to use the survey results to identify and articulate perceived strengths and areas for improvement at the Authority in order to deploy organisational resources as efficiently as possible, and assist with strategic planning.

The Survey results show solid endorsement from external stakeholders of the Authority's performance as a financial services regulator, particularly in terms of clarity in conveying our objectives; knowledge and understanding of the markets we regulate; consistency in handling matters with industry; and the knowledge, responsiveness and professionalism of our staff. The market also appeared satisfied with the way in which the Authority conducts key business transactions, such as company incorporations, licensing, authorisations and off-site reviews. The results show respondents feel the Authority conducts and communicates around these transactions transparently, effectively and efficiently. Overall, stakeholders also feel that the Authority is progressing well towards achieving the goals set in our Business Plan and that the BMA has improved as a regulatory authority.

The area that raised material concerns related to the efficiency of the Authority's

on-site review process. As noted above, we intend to take specific action on these areas during 2009, as well as enhancing our fee payment processes, as referenced earlier in relation to corporate registrations. We will take the experience from completing a full rotation of on-sites across all high-impact firms as at the end of 2008 to increase the efficiency and effectiveness of on-site reviews, including providing faster turnaround times on producing on-site reports. The Authority also plans to publish guidance on our consultative processes with respect to policy development during 2009, to provide stakeholders with greater clarity and familiarity on this matter.

The Authority appreciates the high participation and response from the public and private sector stakeholders who took part in the survey. We remain committed to maintaining a high level of performance, and are focused on continually improving our operations and effectiveness as a financial regulator. We also intend to conduct this survey on a regular basis and publish the results. The report from the 2008 survey is available on the BMA website www.bma.bm.

Corporate Governance

The Authority made significant progress on the continued enhancement of our corporate governance protocols and procedures over the past year. Throughout 2008 we placed added focus on refining processes with respect to performance management, transparency and succession planning within our corporate governance infrastructure.

We successfully conducted two self-assessment surveys at mid-year and the end of 2008 to support on going monitoring of the performance and effectiveness of the Board. We also executed initiatives and established our forward work plan to enhance transparency around the Authority's regulatory responsibilities and procedures, and how the BMA conducts its affairs as an organisation. Initiatives included publishing our Business Plan for the first time; a comprehensive upgrade of the regulatory information and functionality provided on our website; and, from the supervisory standpoint, broader dissemination and publication of policy and guidance for the market. In 2009, we intend to build on this effort via, for example, enhancements

to the consultation process for policy developments and greater interaction with stakeholders generally. We have also for the first time published service standards for the year in our Business Plan with respect to key regulatory transactions conducted with the market.

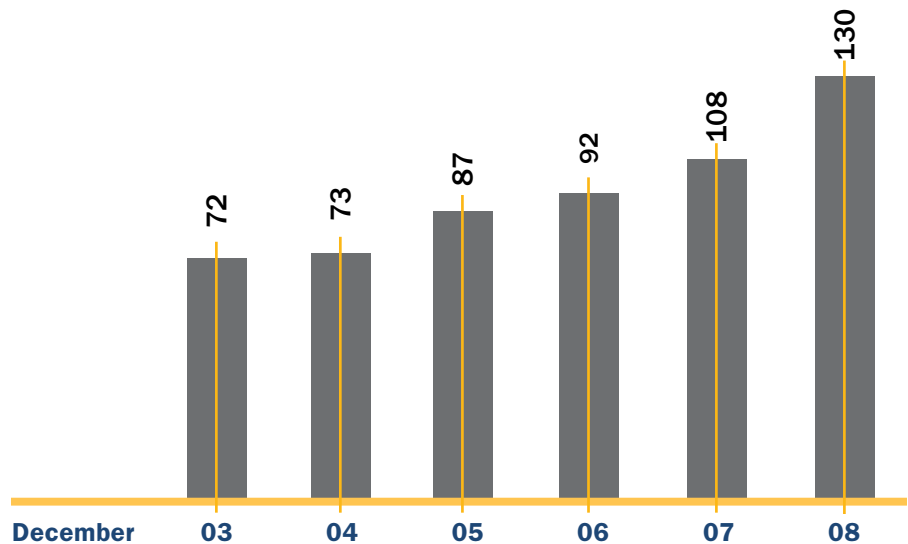
The Authority also reviewed and enhanced its policies governing conflicts of interest in relation to both Board members and staff during the year. Upgraded declarations and approvals procedures in this regard are in place for 2009 and beyond, including an expanded Staff Personal Dealings Policy. Board members will also receive training in relation to the Authority's extended powers within Bermuda's anti-money laundering (AML) regime. This training will support the Board's role in reviewing and approving recommendations for fines to be applied to regulated institutions for breaches of AML regulations, and address how conflicts should be managed within that process. We will also introduce a new Ethics Framework in 2009, which extends and consolidates existing and new policies that support and set expectations for ethical conduct within the organisation.

A Professional Team

The dynamic and challenging financial environment in which the Authority operates, and in particular the market turmoil that has existed over the past year, places increasing demands on the staff of the Authority as well as the firms we supervise. A regulator's ability to respond effectively to those demands, and to supervise entities to a high standard, depends to a large degree on the technical skill, knowledge and business focus of its staff. The Authority recognises this fact, and the critical value of human capital to our work and the operational capability of the organisation. We remain highly committed to ensuring we provide our staff with the professional development, tools, and support they need to carry out their roles successfully, and ensure the Authority conducts its responsibilities effectively.

We placed added strategic focus on enhancing our operational capability at the start of 2008, and we have achieved significant progress on this goal over the past year. We have successfully managed to increase headcount and strengthen the depth of technical skills within the Authority via an aggressive recruitment strategy, retention of experienced existing staff and the targeted use of outsourcing services. This has been supported by expanded learning and

Bermuda Monetary Authority: Total Number of Staff 2003 - 2008



development programmes for staff, with an emphasis on technical supervisory skills training.

For 2009, our target headcount will remain at approximately the same level as last year, but we intend to focus new recruitment on vacancies that will support supervisory, policy, risk and quantitative analysis resources for the Authority. One example of this is our plan to support the on-site work that will be extended to Class 3B insurance companies by establishing an additional supervisory team within the compliance area of the Insurance department. We

also plan to add to our Actuarial Unit to support our work on internal economic capital models. We are also focusing on key areas of our human resources strategy, such as succession planning that will maintain a leadership pool of talent with the capability to sustain the organisation, to ensure the Authority continues to meet its responsibilities effectively with appropriate resources and a skilled, knowledgeable, professional team.

Enhanced Technical Resources

The increased technical resources and

supervisory staffing levels that we have achieved for our regulatory departments have enabled us to deliver on the commitments we set for the Authority in the 2008 Business Plan. By the end of 2008, there were a total of 130 employees within the Authority, which compared to 108 the previous year.

While increased headcount has been important, the quality of technical skills within our teams has also been a critical factor in enhancing our operational capability. Our larger supervisory teams remain focused on the continued development and delivery of the new initiatives on our regulatory agenda, while effectively conducting on going risk-based supervision of licensed entities. In addition, our regulatory departments are benefiting from the technical support of our centralised policy, research and risk assessment team, which we have also expanded. Supervisors in the Insurance department have also been able to take advantage of the depth of experience in our dedicated actuarial team and our unit dealing with non-compliance and enforcement matters. During 2009 we intend to develop further our in-house quantitative skills with new hires in both the Actuarial Services Unit and the Policy, Research and Risk Assessment department. If required we also remain

open to supplementing these internal resources via the use of outsourced technical partners for specific projects, e.g. our internal models review process. Our target headcount for the year of about 145 staff will also include added dedicated resources to our specialist unit within the Legal and Enforcement department, which will focus on conducting supervision and on-site reviews under our AML/CFT standards.

First Class Learning and Development

The constantly evolving demands of the international regulatory environment, particularly in the wake of the global credit crisis, will continue to place greater expectations on the role of regulators. Therefore it is imperative that we ensure the Authority's staff is equipped to deal with those expectations, to support and protect Bermuda's position as a financial jurisdiction, and to demonstrate our capabilities as a leading risk-based financial regulator.

The Authority regards providing staff with a learning and development framework that supports those objectives, as well as their individual professional skills enhancement, as a major priority. We have re-organised and expanded our learning and development programme

to provide a centralised core level of training, as well as support for specific courses on an individual basis. This also included increasing our in-house trainer skill set for a core team of staff to deliver training related to the Authority's supervisory frameworks and operational functions. Overall, we have increased focus within the learning and development framework on technical matters, which include areas such as solvency and economic capital modelling, as well as supervisory skills training with a particular focus on investigative procedures in the on-site process. In 2009 we will continue the expansion of our core level technical training, along with conducting on going monitoring of the full range of training needs of our staff. We will also refine existing programmes and, in line with our overall focus on operational efficiency, leverage technology to deliver training to staff.

Graduate Training Programme

The Authority has successfully launched its Graduate Training Programme (GTP), which is consistent with our strategic goals as regards succession planning. We welcomed the first GTP trainees in the fall of 2008; they will continue their training through 2009 and are scheduled to complete the programme in 2011. The

objective of this three-year programme is to offer young Bermudians a training framework and learning experiences that lead to a career in regulation. The programme also allows the Authority to introduce regulation as a career opportunity to talented Bermudian college graduates via a structured, varied training schedule and challenging work experience cycles. The training involves work rotation schedules for trainees to gain knowledge and experience in the different business units within the Authority. This is supplemented with mentoring and guidance from the Authority's management team, as well as sponsorship for gaining professional qualifications. The trainees will also be placed within companies on industry secondments in Bermuda, as well as regulatory secondments overseas. GTP trainees will receive training that will help to position them as skilled regulators with a solid understanding of the Bermuda market at the end of the programme.

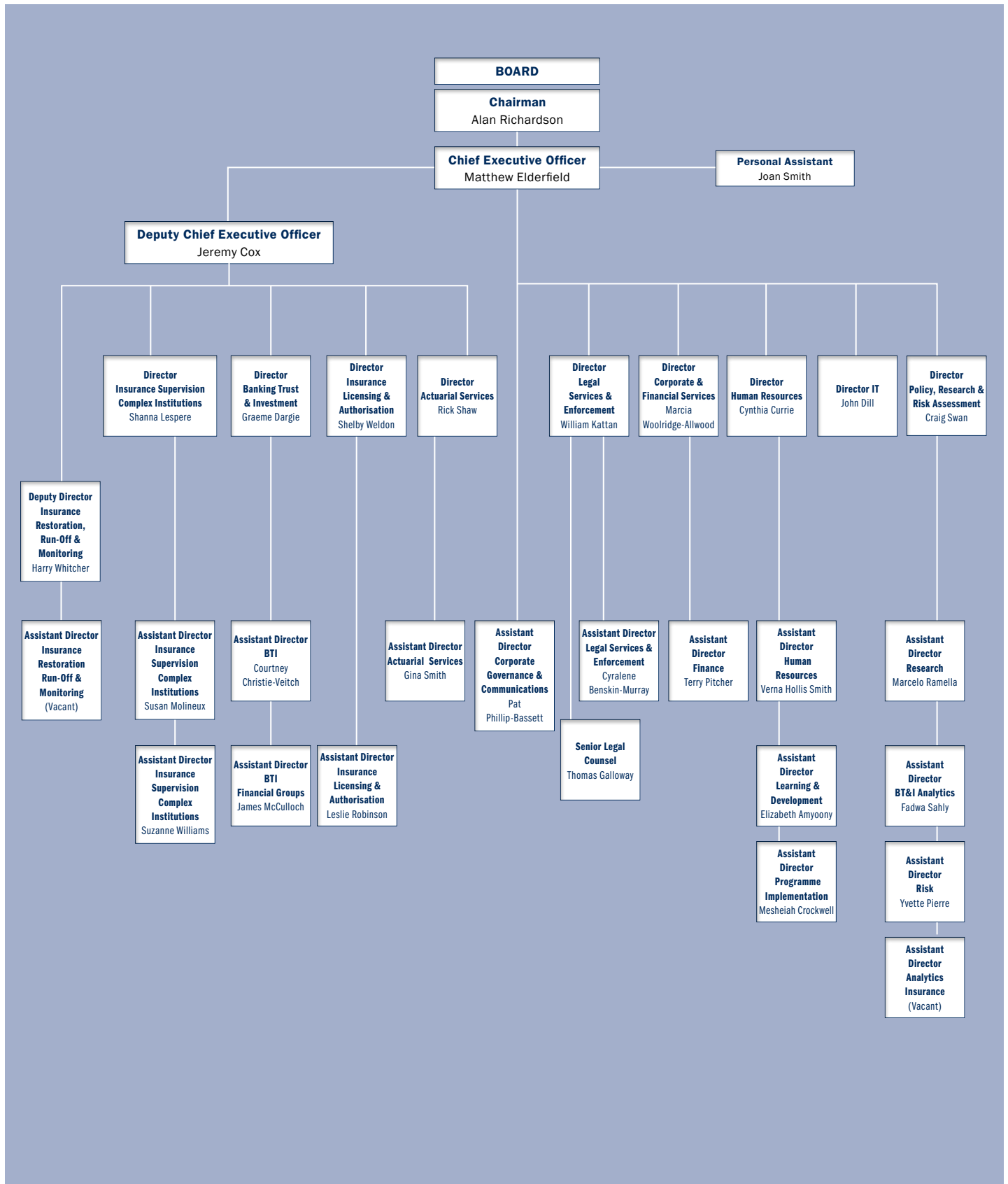
First Class Information Technology

The Authority has started the process of developing and executing its information

technology (IT) strategy. Subsequent to successfully recruiting a Director of IT, we conducted a comprehensive review of the organisation's IT development needs. This review has been completed from an internal and external client service perspective, as well as in terms of fundamental operational processes and general systems enhancement.

The resulting IT strategy that is currently being implemented, and will be executed in phases through 2009 and into 2010 and beyond, is designed to support the operational goals of our regulatory departments and also to fully integrate the technological infrastructure across all our departments. The strategy will put in place best practices for the Authority's IT framework, and we will continually measure the effectiveness of all components of that framework via self-assessments and external evaluations. During 2009 we will complete existing projects currently in progress, and begin work on new initiatives such as e-filing, that will use technology to enhance key processes related to our regulatory work.

BMA Organisational Chart



BMA Business Plan Milestones 2009

	Q1: 2009	Q2: 2009	Q3: 2009	Q4: 2009	Q1: 2010
Solvency II					
Publish market communication and Solvency II Roadmap	◆				
Publish Own Risk and Solvency Assessment (ORSA) Consultation Paper			◆		
Publish Code of Conduct Consultation Paper			◆		
Publish Pillar 3 (Disclosure) Consultation Paper		◆			
Publish Eligible Capital Consultation Paper			◆		
Publish Discussion Paper on revised solvency framework for Long-term insurers				◆	
Basel 2					
First disclosures from institutions under Pillar 3			◆		
Feedback to institutions following Pillar 2 reviews				◆	
Conduct Evaluation of Pillar 2 Implementation Process				◆	
Internal Models					
Launch Standards and Applications Framework		◆			
Group Supervision					
Publish Discussion Paper	◆				
Publish Consultation Paper					◆
Host Supervisory Colleges				◆	
Anti-Money Laundering and Combating the Financing of Terrorism					
Legislation in place	◆				
Issue Guidance	◆				
Publish Statement of Principles	◆				
Begin AML/CFT on-site visits		◆			

BMA Business Plan Milestones 2009

	Q1: 2009	Q2: 2009	Q3: 2009	Q4: 2009	Q1: 2010
Enforcement					
Conclude Insurance market Discussion Paper consultation	◆				
Fitness and Propriety Guidance published		◆			
Publish Banking, Trust, Investment market and Perimeter Issues Discussion Paper for consultation				◆	
Corporate Registration System Enhancement – E-filing					
Conclude industry consultation	◆				
E-filing system development and testing		◆			
Launch e-filing system			◆		
Currency Activities					
Issue new banknote series for circulation	◆				
Credit Union Legislation					
Publish Consultation Paper		◆			
Legislation passed in Parliament				◆	
Special Purpose Insurer Guidance					
Publish Consultation Paper	◆				
Class 3 Reclassification					
Issue new Certificates of Registration	◆				

BMA House ■ 43 Victoria Street ■ Hamilton HM 12 Bermuda
P.O. Box 2447 ■ Hamilton HM JX Bermuda
tel: (441) 295 5278 ■ fax: (441) 292 7471
email: enquiries@bma.bm ■ website: www.bma.bm

