

Business Plan
2013



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CEO Introduction

“The 2013 Plan demonstrates...a mature and practical approach to tackling the job of regulating internationally-active entities in a way and at a pace appropriate for Bermuda.”

Like its predecessors, the 2013 Business Plan describes our priorities over the coming year and how we aim to achieve them. Inevitably, some of these priorities have not changed from those outlined in 2012. Resourcing, Basel III and the requirements of the delayed Solvency II Directive remain among the key drivers of the Authority's planning. As in previous years, publication of the Plan is intended to provide guidance on the continued development of a regulatory and supervisory environment suitable for a leading integrated financial services regulator. However, the 2013 Plan is distinctly more tactical than previous versions and demonstrates a mature and practical approach to tackling the job of regulating internationally-active entities in a way and at a pace appropriate for Bermuda and its unique financial services industry.

The notion of developing a framework that works for Bermuda, both globally and domestically, is not new. We have touched on the need to avoid cut and paste solutions before. The difference in 2013 is that the Authority has the benefit of a more defined sense of what the financial services industry expects from its supervisor, a better gauge of the pace of regulatory change outside Bermuda and a more developed understanding of the post-financial crisis imperatives facing the Bermuda economy.

Failure to take account of these sometimes disparate, critical interests would, in my view, amount to a failure of leadership on the part of the Authority.

While it remains incumbent on the Authority to move forward with the work streams already agreed and adopted, it is equally important that we support efforts to identify and develop initiatives that will contribute to the expansion of quality international business activity for Bermuda and which will, in turn, enhance the Island's reputation as a respected, well-managed financial centre. The Corporate Service Provider Business Act 2012, which became effective 1st January 2013, is a good example of such an initiative. The legislation establishes a new licensing and supervisory regime for professional service providers that act as agents for the formation of corporate entities and provide a broad range of corporate secretarial services and other support functions. As part of this initiative, a new unit will be established within the Authority's Banking, Trust and Investment Department with responsibility for supervising corporate service providers (CSPs) licensed under the new legislation. It is anticipated that the CSP licence application process will become operational in early 2013.

Asset management is another area the Authority regards as a potential business development opportunity. Though not as far along as the CSP initiative, the

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Authority's role will be to help position Bermuda as a domicile of choice for asset managers. This support will take the form of providing extensive regulatory and technical input to working groups charged with exploring developmental opportunities for the jurisdiction. We will also take the lead, where necessary, in meeting with investor groups through our newly established relationship with the NY Hedge Fund Roundtable. We represent an independent source of information for investors looking for a safe and secure domicile with sound regulation and supervision.

In other developments, in the banking sector the Authority will shortly publish a Consultation Paper outlining and inviting comment on proposed regulatory capital improvements sought by the Basel Committee. The paper will follow news from Switzerland that liquidity standards will be less onerous than initially feared and will not be enforced until 2019, four years later than expected. The Authority will also conduct a quantitative impact study as part of this consultative process.

The impact of international regulatory developments is not confined to the banking sector. On the insurance side, the Authority has factored into its Business Plan the likely consequences of delays announced in late 2012 in the implementation timetable of Europe's Solvency II Directive.

During 2013, the Authority proposes to continue moving to an enhanced supervisory regime but in a manner that reflects the multi-licence character of the Bermuda market and on a schedule that enables our insurers to transition to the enhanced requirements on a phased basis, where appropriate. This work will include completing the phased implementation of Bermuda's group supervision regime; refining enhanced solvency requirements; receiving internal models applications; and the introduction of revised reporting and e-filing capabilities for the captive insurance sector. The aim of this proportionate approach will be for barriers to entry to be kept to a minimum consistent with our objectives, so enabling the Authority to contribute to the continued growth of the insurance market in Bermuda.

New supervisory measures that will bring about change in the captive sector are especially noteworthy. Following an assessment of reporting requirements in 2012, the Authority will this year introduce a new captives' risk self-assessment return that consolidates in one electronic annual statutory filing all existing submissions to the Authority. The new return, which will be the subject of a trial run early in 2013 using an e-filing platform, is intended to help increase data collection efficiency and reduce the reporting burden.

Furthermore, given the increased complexities of risk programmes placed in the Bermuda market, the Authority believes that additional supervisory oversight should be applied to insurance intermediaries. A Consultation Paper on a system of risk-based supervision for

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intermediaries will be developed in 2013 ahead of implementation proposed for 2014.

Another initiative designed to strengthen the Authority's relationships with stakeholders is our newly-formed International Affairs department. Created in mid-2012, the unit reflects the increased importance we attach to strategic outreach and the value we place on the development of effective relationships with other regulators as well as law-making and standard-setting bodies.

Indeed, successful and decisive strategies have fostered the buildup of much of the foundational content of our 2013 Business Plan. The benefits of our decision to pursue full equivalence under Solvency II are already apparent. Equally, our focus on achieving broad equivalence with international standards, not just Solvency II, puts Bermuda in a strong leadership position and readies it for what some commentators speculate will be a move towards future regulatory convergence.

The Authority's 2013 Business Plan is an important document which provides an insight on the thinking behind our proposed supervision and regulation. The prospect of unexpected regulatory change tends to give business leaders nightmares which, in turn, can adversely impact

business decisions. The publication of our Business Plan is intended to shed light where it is needed most: on the direction of regulatory policy and practical supervision in one of the world's foremost international business centres.

While we recognise that our insurance, banking, funds and CSP regulations are at different stages of development, they very clearly share a common goal. They all aim to strike the right balance between encouraging the financial services sector to grow while simultaneously retaining integrity and continuing to deliver value.

Jeremy Cox

Chief Executive Officer

Quality Supervision For Bermuda: An Independent Approach

The Authority's risk-based approach to applying quality supervision remains the underlying principle for developing Bermuda's financial regulations. We will also continue applying regulations that are appropriate for Bermuda while strategically aligning our frameworks with relevant global standards.

Our planned regime enhancements to the regulatory framework during 2013 for the banking, investment and insurance sectors will progress further and reflect different stages of development across the market locally. The Authority will also assess the relevance for Bermuda's market of emerging international regulatory developments, such as the impact of potential standards for global systemically important financial institutions. Overall however, throughout this next phase of supervisory development, the Authority will remain committed to establishing independent, pragmatic regulatory changes that are suitable for Bermuda's unique market.

Maintaining A Balanced Approach: Banking and Corporate Services Supervision

Moving Forward on Basel III

The Authority is continuing to develop an approach to applying Basel III to Bermuda's banking sector. We issued a Discussion Paper in 2011 and will shortly publish for comment a Consultation Paper outlining a proposal for implementing the regulatory capital improvements that have been the focus of the Basel Committee on Banking Supervision's work to date. Further proposals are likely later in 2013 regarding the Committee's work on liquidity risk management and related metrics. Implementing Basel III in a pragmatic manner within Bermuda's banking regime is the focus. Therefore, we

SUMMARY OF SUPERVISORY INITIATIVES 2013

Banking and Investments

- Ongoing Basel III consultation
- Special Resolution Regime
- Corporate Governance & Risk Management for investment businesses, trusts and fund administrators

Insurance

- Group Supervision
- Long-Term solvency regime refinement
- Internal Capital Models
- On-site programme review
- Captives revised reporting/e-filing
- Insurance intermediaries supervisory review

Other

- Corporate Service Providers regime
- AML/ATF regime assessment
- Enhanced enforcement regime rollout
- Continued international engagement

will also conduct a quantitative impact study with Bermuda banks as part of the consultation process. The study will inform our calibration of Basel III and any phasing in of new capital standards that may be necessary. This work will reaffirm our commitment to ensuring that Bermuda's banking regulations remain appropriate to the nature of our market, while also taking into account the latest guidance issued by the Basel Committee.

Extending the Financial Safety Net

Strategic enhancement of Bermuda's regulatory and supervisory regime for the banking sector continues to support market stability and depositor protection:

Deposit Insurance Scheme

In 2013, the Authority will complete the work to build the financial safety net for depositors of Bermuda banks. This will include our work to assist the Ministry of Finance to establish and launch the operations for Bermuda's Deposit Insurance Scheme. We will conduct this work in our capacity as an ex officio member of the Deposit Insurance Corporation board, which was instituted in 2012.

Special Resolution Regime

The legislature will consider a Special Resolution Regime Act in 2013. This Act will ensure that Bermuda authorities have a broader range of powers and are able to act swiftly to protect depositors in the event of a bank facing potential failure. The legislation may also be relied upon to deal with banks that are subject to regulatory and enforcement actions by the Authority.

Corporate Governance and Risk Management

Having established the Corporate Governance Code for Bermuda banks last year, work will begin in 2013 to adapt the Code to investment businesses, trusts and fund administrators. The corporate governance and risk management principles and standards that apply under the Code are designed to build on existing industry practice in these areas. Provisions of the Code cover matters such as board practices; risk management and internal controls; compensation; complex or opaque corporate structures; and disclosure issues. Feedback from consultation with the market will assist with the roll out and implementation process during the year.

Corporate Service Providers Regime

Bermuda has earned a reputation as a quality financial jurisdiction based to a great degree on its commitment to ensuring that companies established in Bermuda conduct legitimate and lawful business operations. From the Authority's perspective, a large part of this commitment is our licensing and authorisation process which has incorporated comprehensive vetting policies built on strict 'Know Your Customer' (KYC) standards.

The Corporate Service Provider Business Act 2012 – which came into effect on 1st January 2013 reflects these fundamental principles. The Act has established a new licensing and supervisory regime for professional service providers that act as agents for the formation of corporate

entities and provide a broad range of corporate secretarial functions and other services, including acting as a nominee for undertakings established in the jurisdiction. It is anticipated that the CSP licence application process will commence in early 2013.

A new CSP Unit will be established within the Authority's Banking, Trust and Investment Department and it will be responsible for the day-to-day supervision of CSPs.

The regime is designed to ensure that CSP business is conducted with integrity and that licensees have the professional skills appropriate to the nature and scale of their activities. Minimum licensing criteria require a CSP to have, among other matters, appropriate resources and policies and procedures in place to conduct detailed due diligence on entities. In addition, a risk management and control framework must be embedded in the strategic and operational policies of the CSP, proportionate to the scale of its business.

With the legislation in place, at the end of 2012, the Authority issued guidance, a Statement of Principles and draft regulations dealing with beneficial ownership for market consultation to support implementation of the CSP regime. Consultation will continue through the first quarter of 2013 to finalise elements of the regime.

Asset Management: Exploring The Bermuda Opportunity

Developments towards establishing global standards in fund regulation continue to gain momentum post the financial crisis, and discussion on the eventual impact on fund jurisdictions is ongoing. During 2013, the Authority will maintain close monitoring of these discussions in the international arena. In the case of certain specific initiatives, such as Europe's Alternative Investment Fund Managers Directive, we are assessing third country implications for Bermuda's market and will be consulting with the market on an approach that facilitates continued access to the European market by Bermuda funds.

Locally, the Authority will continue to actively participate in the jurisdictional effort to position Bermuda as a domicile of choice for asset managers. Our work will remain focused on providing regulatory and technical input to working groups established to explore asset management as a national business development initiative. We will also put any proposed framework changes for Bermuda into the context of relevant global regulatory standards.

The Authority remains open to regulatory initiatives that support strategic growth for the jurisdiction responsibly. This openness, coupled with a commitment to effective risk-based regulation and a high level of engagement with the market, has supported new financial services business in Bermuda and the success of the jurisdiction.

Insurance Sector: The Right Regulation, At The Right Pace

The priority for regulatory change in relation to the insurance sector remains unchanged – to apply pragmatic, risk-based supervision that is right for Bermuda, while implementing framework changes at a pace that is appropriate for our market. We are advancing this work while also taking note of changing timelines and direction in external initiatives, such as the delay in Europe's Solvency II Directive. We recognise the importance of ensuring the Directive is implemented appropriately and remain committed to the regulatory equivalence process in relation to Solvency II for our commercial insurance sector. However, the overall adoption of progressive, risk-based supervision goes beyond a single regulatory initiative.

Therefore, during 2013 we will continue re-engineering our insurance supervisory regime in a manner that reflects the diversity and differentiated risk profiles of insurers within the Bermuda market. Also, we will implement changes on a schedule that enables Bermuda's insurers to transition to enhanced requirements on a phased basis where appropriate. This work will include the final stage of embedding group supervision within Bermuda's insurance framework. We will also continue rolling out our enhanced solvency regime across the commercial market; finalising implementation of our internal models framework; and introducing revised reporting and e-filing capabilities for the captive sector. While making these changes, we are adding strategically to our existing depth of technical resources and expertise in order to deliver risk-based supervision effectively and efficiently.

Group Supervision

Bermuda has achieved considerable progress with establishing group supervision for its insurance market. The legislative requirements for group supervision have been phased in since 2011. The latest phase, which establishes corporate governance and risk management requirements for groups, became effective as of 1st January 2013.

During 2013, market consultation will continue on the approach to enhanced capital requirements that will be phased in for Bermuda groups. It is proposed that the enhanced capital requirement for groups will come into effect from year-end 2013 and will be phased in over five years. For qualifying groups, these requirements may be calculated through the use of internal capital models (ICM), since the Authority is preparing to accept ICM applications for Bermuda insurance groups during the year. Concurrently, the Authority will be revisiting the Bermuda Solvency Capital Requirement (BSCR) standard capital model for groups and continuing consultation on enhancing its risk-sensitivity.

Over the past year, the Authority launched supervisory colleges for Bermuda's insurance groups, adding to its established and long-standing colleges programme for Bermuda-based groups in the banking and investment sectors. In assuming the role of Group Supervisor for a number of insurance groups, we have taken lead supervisory responsibilities in coordination with host supervisors. The Authority also participates in supervisory colleges in which other jurisdictions assume the role of Group Supervisor. The supervisory college schedule will continue throughout 2013, and remains an important component of implementing group supervision for Bermuda's insurance market.

HIGHLIGHTS: INSURANCE FRAMEWORK CHANGES 2013

As phased rollout of regime changes for its commercial insurers continue, Bermuda remains well-positioned for global recognition of its framework, while pragmatically building in provisions and time for firms to transition to key enhancements; timing and deferrals for 2013 will also recognise pending developments in global regulatory standards:

Bermuda Standard Capital Requirement (BSCR)

- Full implementation for Class 4, 3B, 3A insurers
- Phased implementation of Groups BSCR and developing revised risk-adjusted BSCR for Long-Term Class C,D,E insurers with subsequent phased implementation
- Continued consultation related to risk-sensitivity more generally

Economic Balance Sheet

- Further consultation with General Business and Long-Term insurers through 2013
- Future direction internationally being considered, e.g. International Accounting Standard Board standards

Eligible Capital

- Effective 1st January 2013 for year-end 2012 filings for Class 4, 3B, 3A
- Transitional provisions for meeting specific requirements in place
- Deferred for Class C, D and E, and insurance groups until year-end 2013

Enhanced Regulatory Reporting

- GAAP financial statement requirements in place for Class 4, 3B, and E
- Deferred for Class 3A, C, D, subject to BMA review of public filing policy

Additional Enhancements: Effective 1st January 2013 for General Business and Long-Term insurers

- Dual licences – discontinue ability to write both direct Long-Term and General Business, subject to grandfathering of existing licences
- Long-Term insurers permitted to write accident and disability contracts of any duration and General Business insurers may write for terms up to five years
- Non-insurance business prohibited with grandfathering for existing business
- Revised material change notification requirements
- Enhanced Minimum Solvency requirements
- Revised licensing application information, e.g. enhanced information re: pro forma financial statements, risk management, governance
- Segregation of internal audit and compliance – transition period for compliance through to 1st January 2014

Long-Term Insurer Regime Developments

Work will continue during 2013 on enhancing the risk-sensitivity of the Bermuda Solvency Capital Requirement (BSCR), the Authority's standard capital model in relation to Bermuda's Long-Term (life) insurers.

The Authority is adapting the model based on findings from trial reporting and market consultation with the Long-Term sector, as well as further dialogue with companies. The modifications will take into further account certain risk characteristics specific to Long-Term insurers. This work will include reviewing asset, longevity, and variable annuity charges under the model. Phased implementation of the enhanced capital requirements for Long-Term companies will take place over a three-year period, beginning from year-end 2013. This provides commercial Long-Term insurers with an additional year from the initially proposed timetable to transition towards revised capital requirements.

Internal Capital Models (ICM)

2013 will mark the final phase of implementing the Authority's internal models framework. During 2012, the Authority issued revised guidance to the market that brought Long-Term business within scope of the framework. We also conducted further pilot activity, and took a significant step towards implementation preparedness by reviewing the catastrophe model component of a group internal model in an effort to assist a foreign supervisor with its actual internal model approval work.

We have also built further enhancements into the ICM review process and developed additional resources in preparation to conduct reviews. The Authority plans to begin accepting ICM applications from General Business and Long-Term insurers in the third quarter of 2013. Discussions are also underway with other regulatory agencies to prepare for eventual Group ICM reviews.

Re-engineering the On-site Programme

The Authority's on-site programme for the insurance market has to date primarily covered Class 4 and 3B commercial insurers. As part of our overall enhancements to Bermuda's risk-based supervisory framework, and in line with the revised classifications applied to the commercial market, we will in 2013 review and extend the commercial insurer on-site programme, as appropriate. Enhancements to elements of the on-site process are designed to focus on building further risk-sensitivity into each review and ensuring efficient resource allocation to conduct these assessments.

Similarly, and as a separate work stream, in relation to the captive sector, the Authority will issue during the fourth quarter of 2013 a Consultation Paper on re-engineering the current insurance manager on-site programme.

Captive Insurer Regime

The Authority recognises that effective but pragmatic regulation, as well as depth of experience and understanding of captives, facilitates the success of this important sector of Bermuda's insurance market. Therefore, even as we apply refinements to Bermuda's captive regime, the focus remains on maintaining practical, proportionate supervision, given the limited risk profile of such insurers.

During 2012, the Authority completed its assessment of proposed enhancements to the reporting requirements for Bermuda's captive insurers. The proposals include consolidating existing submissions to the Authority, together with a new captives' risk self-assessment return, to form one electronic annual statutory filing. This change should result in increased efficiencies for both the market and the Authority.

The Authority will conduct a trial run of the risk self-assessment return on the e-filing platform early in 2013. The results and analysis of the trial run will assist with finalising details of the filing process. The Authority will also complete amendments to the Insurance Returns and Solvency Regulations 1980 by the second quarter of 2013 to incorporate the revised return. Implementation will be phased, beginning with Classes 1 and 2, and Long-Term Classes A and B insurers, for June 2013 filings. The second phase of implementation will take place for April 2014 filings and include Class 3 insurers.

Supervisory Review - Insurance Intermediaries

Our continual review of Bermuda's framework to ensure it remains effective as the market evolves, and also in the context of relevant global standards, will extend to Bermuda's insurance intermediaries during 2013. Such intermediaries include insurance agents, brokers and managers.

While the Insurance Act 1978 sets robust statutory licensing and reporting requirements for these intermediaries, the Authority feels it is appropriate to consider additional oversight of such entities, given the growing complexities of business conducted in the market through intermediaries. Taking such a step also supports ongoing policyholder protection and market stability. Accordingly, we will issue a Consultation Paper on a risk-based supervisory regime for intermediaries in the second quarter of 2013. The Authority aims to implement the enhanced regime for insurance intermediaries by the end of 2014.

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
INSURANCE								
Economic Balance Sheet								
Further market consultation: General Business and Long-Term	●							
Eligible Capital/Own Funds								
Implementation: Class 4, Class 3B, Class 3A	●							
Implementation: Class C and Class D				●				
Bermuda Solvency Capital Requirement (BSCR)								
Implementation: Class 4, Class 3B, Class 3A	●							
Long-Term BSCR:								
- Consultation		●						
- Draft legislation		●						
- Phased implementation				●				
Internal Models								
Full implementation: General Business, Long-Term, Groups						●		
CISSA (ORSA)								
Trial Run Class C and Class D Long-Term		●						
Enhanced Regulatory Reporting								
Implementation: Class 3A	●							
Groups								
Transitional implementation: Group supervision Class 4, Class 3B, Class 3A, Class E	●							
Phased implementation: Enhanced capital requirement				●				
Long-Term Business Framework								
Long-Term BSCR trial run		●						
Phased implementation: Enhanced capital requirement				●				

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Captives Reporting Requirements								
Trial run	●							
Implementation: Class 1, Class 2, Class A, Class B		●						
BANKING, TRUST, CORPORATE SERVICES AND INVESTMENTS								
Basel III								
Issue Consultation Paper	●							
Corporate Service Provider Regime								
Implementation		●						
Banking Intervention Powers								
Banking Special Resolutions Regime: Consultation completed		●						
Legislation Passed			●					
Corporate Governance Code - Investment and Trust								
Issue Consultation Paper	●							
Implement amendments to Acts				●				
OTHER								
E-filing - Enhanced Reporting Process								
Extend system to fund administrators, Class 1, Class 2, Class A, Class B insurers		●						
Extend system to Class 3 insurers						●		
Currency Activities								
Launch of demonetisation process for legacy banknote series			●					
Enhanced Enforcement								
Implementation: banking, insurance, trust	●							
Anti-Money Laundering/Anti-Terrorism Financing								
Issue Investment Business Guidance				●				

Anti-Money Laundering/Anti-Terrorism Financing Supervision

Throughout 2013 and 2014 the Authority will focus on assessing Bermuda's financial services market in terms of anti-money laundering/anti-terrorism financing (AML/ATF) to contribute to a country risk assessment in conjunction with the National Anti-Money Laundering Committee (NAMLC). This work is part of wider preparations for the next International Monetary Fund (IMF) review of Bermuda. The IMF review, which will incorporate detailed assessment of the jurisdiction's AML/ATF regime, is expected to take place in 2015.

Bermuda continues to ensure that its AML/ATF regime reflects relevant international standards, in this context the Financial Action Task Force (FATF) 40 + 9 recommendations which were recently updated. The growth of international standard-setting bodies, and the increasing detail of the standards by which the Authority, and the jurisdiction, are assessed, results in an increased obligation to ensure such standards are met, supported by sufficient resources. Accordingly, the Authority is using the results of the effectiveness review it commissioned in 2012 to implement refinements to the AML/ATF regime. By the end of 2013, in consultation with NAMLC and the market, the Authority will review Bermuda's AML/ATF legislation and compliance monitoring methodologies, as well as general and industry-specific guidance notes.

In terms of ongoing supervision, the Authority will conduct 25 on-site reviews of AML-regulated institutions during 2013, aligned with the results of the country risk assessment. We will also continue to conduct desk-based reviews during the year, as well as a series of outreach seminars to the market on changes to the FATF standards. We will be issuing guidance for the investment business sector and carry out consultation with the investment fund sector on relevant guidance.

Enforcement

Having concluded market consultation and publication of a Statement of Principles on Enforcement by the end of last year, in 2013 the Authority will complete embedding its enforcement framework across Bermuda's banking, trust, insurance and investment sectors.

During 2012, amendments to the Insurance Act 1978, the Banks and Deposit Companies Act 1999, the Investment Business Act 2003 and the Trusts (Regulation of Trust Business) Act 2001 introduced a uniform set of enforcement powers, and associated procedures, for these Acts. Similar amendments will be developed for the Investment Funds Act 2006 during 2013, and the newly-enacted Corporate Service Provider Business Act 2012 also contains a suite of enforcement powers consistent with those contained in these Acts.

The Statement of Principles relates to the amendments, and details how the Authority will administer the statutory powers they introduce. Given that the new provisions augment the existing range of powers available for enforcement purposes, the Authority has ensured that the Statement is comprehensive, fully explaining the use of the powers under each of the Acts. These details include the initial approach to apparent non-compliance issues and the steps in the decision-making process towards using the enforcement powers; factors affecting a choice of enforcement action; the procedures for applying enforcement actions; and the criteria for decisions on whether not to publicise enforcement actions.

The Authority recognises the impact of applying a comprehensive range of enforcement powers and intends to use them judiciously, in cases of material non-compliance. As such, we anticipate that the majority of compliance issues and concerns will be addressed without the use of such powers; however, we remain ready to act by using them appropriately when necessary in pursuit of our regulatory objectives.

International Engagement And Developments

The evolving international regulatory environment continues to present all regulators with the challenge of adapting to constant change.

Fundamentally, regulators must consider how best to apply practical regulation that is workable for the nature of their markets, while also recognising expectations of the global regulatory arena. This includes addressing the interconnectedness of businesses under their supervision, and being able to supervise firms operating in multiple diverse markets effectively. The legacy of the financial crisis, and the prolonged economic downturn, has also increased expectations that there will be more effective supervisory cooperation and better coordination among jurisdictions to support global financial stability.

Against this backdrop, the Authority remains committed to its active programme of international engagement, recognising the value and importance of contributing to, as well as preparing for, global changes that can impact the Bermuda market.

International Cooperation

The Authority's interaction with standard setting bodies globally continues to demonstrate Bermuda's commitment to international cooperation. For the insurance sector, regulatory developments and equivalence within and beyond Europe has been top-of-mind for many in Bermuda. However, the movement towards ensuring there is effective macroprudential supervision within and across markets has emerged as a significant factor driving global regulatory development.

As chairman of the International Association of Insurance Supervisors (IAIS) Macroprudential Policy and Surveillance Subcommittee last year, the Authority has led the Subcommittee's first phase of work towards establishing a framework of macro-financial analysis that supports IAIS policy recommendations related to systemic risk. After receiving feedback from the IAIS and other stakeholders on its initial report, the Subcommittee's next phase of development during 2013 will include designing a set of macroprudential indicators for identifying and monitoring system-wide vulnerabilities. This work will also include monitoring and analysis of insurance markets and products to identify and assess potential channels for transmission of systemic risk from or to insurers. The Authority will continue to engage actively in the debate on identifying systemically important financial institutions (SIFIs) and the policy measures to be applied to such entities. This input will take place primarily through our membership on the IAIS Financial Stability Committee and the Financial Stability Board Regional Consultative Group for the Americas. International supervisory initiatives to address the need for a more robust supervisory approach to internationally-active insurance groups will be addressed through our participation on the IAIS Technical Committee.

Supervisors worldwide in the banking and investment arenas also need to keep pace with the dynamic changes occurring in financial regulation internationally. Examples of such changes include the implications of Basel III roll out, and the Alternative Investment Fund Manager Directive in Europe. Via our participation

in meetings of the Group of International Financial Centre Supervisors and the International Organisation of Securities Commissioners, the Authority will remain engaged on global issues that may impact these sectors in Bermuda, and determine any appropriate action.

We will continue to maintain a dialogue with our counterparts at the National Association of Insurance Commissions (NAIC) in the US throughout 2013 on their Solvency Modernization Initiative, Approved Jurisdiction proposal and various other matters of common interest in global insurance regulation. We will also work closely with the United States Federal Insurance Office, which has a key role in coordinating US insurance policy.

The Authority's support for the work of NAMLC at the regional and international level will also continue, by participating on working committees reviewing proposed changes put forward by FATF, and attending meetings of FATF and the Caribbean Financial Action Task Force.

In addition, we will maintain our commitment to leverage the Authority's experience in financial regulation to once again provide training of supervisors overseas during 2013. This ongoing schedule of activity includes conducting technical seminars for supervisors under the auspices of bodies such as the Financial Stability Institute of the Bank for International Settlements and the Offshore Group of Insurance Supervisors. In this way the Authority also helps to support raising the standard of financial supervision globally.

HIGHLIGHTS: INITIATIVES FOR INTERNATIONAL DEVELOPMENTS 2013

International Cooperation

- Continue to represent Bermuda through memberships on the IAIS Financial Stability Committee and the Financial Stability Board Regional Consultative Group for the Americas
- Participation on the IAIS Technical Committee, enabling the Authority to actively engage in the debate surrounding the need for more robust supervisory approach to internationally-active insurance groups
- Maintain participation in Group of International Financial Centre Supervisors and the International Organisation of Securities Commissioners
- Maintain dialogue with the National Association of Insurance Commissions (NAIC) and the United States Federal Insurance Office in the US
- Continue to provide the Authority's expertise for training supervisors overseas, to assist with raising the standard of supervision globally

Advocacy

- Maintain strategic outreach with supervisory counterparts in the UK/Europe and the US
- Build further on relationships with the European Insurance and Occupational Pensions Authority (EIOPA)
- Continue to promote the principles and benefits of risk-based regulation

Supervisory Cooperation

- Hosting and participating in supervisory colleges for banks, investment businesses and the insurance sector
- As opportunities arise, explore additional Memoranda of Understanding with regulatory counterparts

Advocacy

The Authority's advocacy programme has generated greater awareness and understanding about Bermuda's regulatory framework among key stakeholders overseas. Maintaining close engagement with relevant jurisdictions supports our goal for Bermuda to be recognised as a leader in applying world class, risk-based regulation.

Therefore, strategic outreach to our supervisory counterparts in the UK/ Europe and the US is designed to reinforce the credibility Bermuda has earned in those markets. It is also aligned with the Authority's ongoing enhancements to Bermuda's regimes and its regulatory equivalence programme, most recently in relation to the insurance sector.

The Authority has placed much focus on liaising with regulatory authorities in Europe, and in 2013 intends to build further on relationships established with the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission. With this in mind, our advocacy work will support steps towards Bermuda becoming a signatory to the EIOPA Multi-lateral Memorandum of Understanding; technical discussions on this will conclude during the year.

We will also extend outreach to the European Securities and Markets Authority (ESMA). ESMA is currently consulting on guidelines and technical standards for Europe's Alternative Investment Fund Managers Directive (AIFMD). Our dialogue with ESMA will assist in building understanding about the Bermuda market, as well as assessing third country implications for the AIFMD for Bermuda's funds sector.

However, given the importance of the US market to Bermuda, continuing to monitor evolving trends and regulatory developments there also remains a priority. In 2013, we will maintain engagement with our regulatory counterparts in the US, individually with State insurance commissions as well as via interaction with the NAIC.

Throughout the Authority's interactions and monitoring of regulatory initiatives of relevance to Bermuda, we promote the principles and benefits of risk-based regulation. Based on Bermuda's depth of experience in financial regulation, the Authority reiterates that pragmatism, and the wisdom of applying regulation that is workable in a real sense from the perspective of both regulator and regulated, must be at the core of regulatory development.

Supervisory Cooperation

Supervisory cooperation - specifically, bilateral and multilateral regulator relationships - has taken on even greater importance in recent years, especially with the advent of group supervision. The Authority has achieved continued success in defining and further building its relationships with fellow-regulators in this regard by way of regulator-to-regulator exchanges, supervisory colleges and entering into Memoranda of Understanding (MOU).

The schedule of supervisory colleges for banks, investment businesses and the insurance sector is set to continue throughout 2013. Broadly, the Authority's colleges have evolved to take various forms, including physical meetings with other supervisors that may or may not

require attendance by representatives of the group, and virtual meetings between the BMA and other supervisors, e.g. via teleconference or other technology-based mechanisms. Using these alternatives facilitates further, regular technical dialogue with our supervisory counterparts on Bermuda-based financial groups of mutual interest that is so crucial for proactively managing any risks that may emerge within an entity.

These detailed discussions support the Authority's risk-based supervision and oversight of Bermuda-based entities with substantial overseas operations for the purposes of effective group supervision. The colleges also help to build further trust in the effectiveness of our regulatory framework among key stakeholders.

The Authority also continues to see the value of signing MOUs to support its international engagement activities. For example, for the insurance sector, our participation as both a signatory to the IAIS Multi-lateral Memorandum of Understanding and a member of their Signatories Working Group remains key. Therefore, establishing MOUs as required with selected regulatory authorities overseas in jurisdictions of strategic relevance to Bermuda will continue in 2013. During 2012, we signed an MOU with the Financial Supervisory Authority of Norway (Finanstilsynet), taking the total to 19 by the end of the year.

Operations And Resourcing

Human Resources

The Authority's long-term view as regards resources is to focus on achieving operational efficiencies and enhancing staff effectiveness. In 2013 our work in these areas will involve:

- growing our supervisory teams appropriately and providing them with the requisite supervisory toolkits to conduct their jobs at a high level
- creating capacity with our existing workforce by leveraging technology and continuing our use of hybrid resourcing models

The targeted recruitment campaign to attract highly-skilled individuals to join our supervisory, policy and risk analytics units will continue during the year. Our efforts in this regard are being conducted against a backdrop of an increasingly competitive recruitment environment in which highly-specialised technical skills are in significant demand. Notwithstanding this challenging environment, we have had success in attracting senior-level individuals with the requisite technical experience to join our organisation in recent years. In particular, the Authority now has in place in-house actuarial resources that are embedded within its supervisory teams, and additional resources and expertise in terms of policy development to drive forward regime implementation. Similarly, extended risk analytics and ongoing monitoring, on a sectoral and macro-prudential basis for both domestic and international market trends, is now conducted by an in-house team dedicated to this function.

This means that in 2013 more reliance will be placed on our in-house teams to both

inform and implement our supervisory agenda. However when necessary, we will continue to use hybrid resourcing models to enable us to meet immediate resources needs in a cost effective manner. We will deploy such resourcing models when additional resources are required for short-term peak periods within our supervisory review processes.

We will also focus on building on the considerable progress made in 2012 to establish a robust learning and development framework. Our framework supports the continued professional development of our staff and is aligned to the organisation's vision of being a leading risk-based financial services regulator. We will continue to embed the BMA technical competencies across supervisory departments during 2013. This activity will be supported with a targeted and effective learning and development curriculum and further expansion of our leadership development programme to build on the depth of expertise of our management pool.

Information Technology

Implementation of the Authority's IT strategy continues. Our focus in 2013 will be to continue to embed ERICA (Electronic Regulatory Information Compliance Applications) into our IT infrastructure. ERICA is a platform that supports efficiencies in the supervisory process, as well as making it easier for external firms to comply with enhanced reporting requirements, by streamlining the reporting, collection and analysis of data required for regulatory proposes.

In 2012, our e-filing capabilities, supported through ERICA, were applied

to the banking sector for submissions of quarterly Prudential Information Returns. During 2013, this toolset will be extended to enable fund administrators and captive insurers to submit filings in electronic format to the Authority.

We will also continue to enhance our information management framework during 2013. An additional work stream in this regard is the implementation of a records management programme. We will align this programme, as far as possible, to the International Standard – ISO 15489 that governs the management of records and information. A pilot to support electronic document management will commence in the first quarter of 2013. The full roll out of this solution will continue throughout 2013 and will eventually integrate with ERICA and other internal operating platforms. The methodology of this project will enable all records, regardless of their media, to be managed consistently, efficiently and within the recommendations stated in the ISO 15489 standard.

Overall, we remain focused on leveraging technology to support increasing efficiencies for both the Authority and all external stakeholders throughout the information exchange and processing conducted as part of our responsibilities.

CURRENCY ACTIVITIES: Demonetisation

Having successfully introduced a redesigned, award-winning banknote series with enhanced security features three years ago, the Authority will begin the process of demonetising Bermuda's legacy banknote series in 2013.

Preparations have begun with Bermuda's banks as regards managing currency supplies of the legacy banknotes in preparation for taking them out of circulation. Overall communication with the local business sector and the Bermuda public on the demonetisation process will begin in the second half of 2013. The Authority will form a working group comprising representatives of Bermuda's banks and credit union to ensure a smooth process. In addition, a number of public information sessions will be held during the year to provide the community with details of the process and phases involved in "calling-in" banknotes from the legacy series, as well as the timeline for when the legacy currency will no longer be legal tender, i.e. a period of 10 years after the demonetisation process begins.

As with previous demonetisation initiatives in Bermuda, once the process for the current legacy note series officially begins, the Authority will no longer release such banknotes for public circulation. For the general public, this will mean that from 2013 onwards a declining number of legacy banknotes will be in circulation.

BMA Management Team - as at 1st January 2013

Jeremy Cox
Chief Executive Officer

Bradley Erickson
Chief Operating Officer

Banking, Trust, Corporate Services & Investment

Marcia Woolridge-Allwood
Director

Geraldine Low
Deputy Director

Tamara Anfossi
Assistant Director, Financial Institutions & Investment Funds

Finance & Currency Operations

Terry Pitcher
Head of Finance & Currency Operations

Corporate Governance & Communications

Pat Phillip-Bassett
Deputy Director

Human Resources

Mesheiah Crockwell
Head of Human Resources

Licensing & Authorisations

Shelby Weldon
Director

Leslie Robinson
Assistant Director, Licensing

Melissa Morton
Acting Assistant Director, Authorisations

Akilah Wilson
Acting Assistant Director, Licensing

International Affairs

Shanna Lespere
Director

Legal Services & Enforcement

Shauna MacKenzie
Director

Thomas Galloway
Deputy Director

Dina Wilson
Assistant Director

Management Services

John Dill
Director

Howard Ho
Assistant Director, Information Technology

Insurance Supervision**Craig Swan***Director***Niall Farrell***Deputy Director***David Theaker***Deputy Director, Actuarial Services***Suzanne Williams***Deputy Director***Laila Burke***Assistant Director***Simbarashe Chinyemba***Assistant Director, Actuarial Services,
Property & Casualty***Eric Donkoh***Assistant Director***Gerald Gakundi***Assistant Director***David Kaniaru***Assistant Director, Analytics & Infrastructure***Christopher Killourhy***Internal Models Specialist***Richard May***Assistant Director, Actuarial Services,
Long-Term***Susan Molineux***Assistant Director***Gina Smith***Assistant Director, Actuarial Services,
Property & Casualty***Gary Thomas***Assistant Director, Actuarial Services,
Long-Term***Donald Treanor***Assistant Director, Actuarial Services,
Property & Casualty***Organisational Development****Verna Hollis-Smith***Assistant Director***Policy, Research & Risk****Mary Frances Monroe***Director***Marcelo Ramella***Deputy Director, Research***Diana Nedvidek***Deputy Director, Policy***Andreas Jobst***Deputy Director, Chief Economist***Ifor Hughes***Assistant Director, Macro-prudential***Senior Advisor****Roger Scotton***International Affairs*



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