



# 2018 BUSINESS PLAN



**Jeremy Cox**  
Chief Executive Officer

The role of the regulator must be to strike the balance between financial stability and economic growth. We must remain the ever-vigilant gatekeeper... and we must take care not to stand in the way of progress.

## CEO Message

A new year brings its own set of challenges and opportunities and 2018 is no exception.

This year's bumper crop includes cyber security and fintech, financial stability and economic growth, advocacy and the upcoming AML/ATF review, relations with other regulatory bodies and, interestingly, a focus on whether the Authority should have a voice in the area of consumer affairs.

The more discerning, some would say less forgiving, among you will be quick to spot a couple of old chestnuts. It's true that financial stability is not a new challenge. Neither is the AML/ATF review. Nor the need for advocacy on behalf of our jurisdiction, or relations with regulators overseas.

You could perhaps be forgiven for thinking, wrongly, that we are dragging our feet. The truth is that we are not in the business of merely ticking boxes. We are focused on a substantive set of priority objectives that we believe are critical to achieving our mission. And some of these will have multi-year deliverables. Like the AML/ATF review, like the need for continued advocacy, like the focus on better relations with international regulators.

At the same time, it is clear to me that we could make our business planning process more user-friendly and easier to follow if we grouped our proposed activities under some common themes which I believe are going to

be with us for a little while. For easy recall, I'm referring to them as the three T's.

My first T is taxes. At least one rating agency has already made clear that it believes tax reform in the US will reduce the overall benefit of a Bermuda domicile without eliminating its position as a global centre for insurance and reinsurance. According to Fitch, the cut in the US corporate tax rate to 21% coupled with the new Base Erosion and Anti-Abuse Tax will significantly reduce the tax advantages of Bermuda-based companies over those in the US.

My second T is technology. We are already hearing about technologies that could drive truly massive economic transformations and disruptions in the coming years. We've seen our own government committing to digitise its property deed system and transfer it to blockchain. At the BMA, we have moved to electronic filing for some of our companies and we are considering the use of artificial intelligence. But we need to be aware of the risk factors. A recent study by Lloyd's of London found that businesses in the US could lose \$15 billion if a leading cloud service provider were to experience downtime of three days.

My last T is takeovers. This follows the announcement of AXA's proposed acquisition of XL Catlin, American International Group's proposed acquisition of Validus and the

intense speculation now swirling about other consolidation moves in the Bermuda reinsurance market. In addition to soft pricing and a competitive marketplace, a contributing factor to consolidations could come as companies move to offset the impact of US tax reform.

The need for a solid and sustainable regulator is arguably greater than ever. Whether it's cyber currency or cyber crime, the world of technology has us on our toes. The role of the regulator must be to strike the balance between financial stability and economic growth. We must remain the ever-vigilant gatekeeper, enabling Bermuda to continue to be a well-regulated and safe financial services centre; and we must take care not to stand in the way of progress.

Against the background of my "three T's" I urge you to read the specifics of the BMA Business Plan on these pages. You will see that there is much to be done and impressive teams to carry out our mission.

The 2018 Business Plan contains some elements that you have seen in our 2017 plan. In my view, there is no shame in that and some would describe it as demonstrating consistency. We are single-minded and tenacious when it comes to follow-through and delivering on promises. Our perspective is long-term, with an execution style more akin to the marathoner than the sprinter.

## CEO Message continued

While keeping a weather eye on the competition and the finish line, our objective is to provide a stable and transparent environment that is attractive to new business while nurturing the existing market.

As already mentioned, we are not in the business of ticking boxes in an effort to show progress is being made towards reinventing the regulatory wheel.

That is not to say we are resisting change. In fact, changes are inevitable if the BMA is to continue to provide the volume and quality of oversight demanded by Bermuda's financial services industry. Today's regulator must be one step ahead – vigilant, forward-thinking and constantly adapting to new ideas.

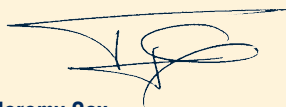
You will read in the Business Plan how innovation has become a guiding light for our Insurance teams, with their newly-developed "sandbox" approach. Similarly, BTCSI teams are preparing for the impact of financial technological advances.

As an organisation we have had to rethink how we carry out our mandate, and in 2016/17, an independent review of the BMA made the case for some realignment and modest growth.

In 2018, we will be launching a plan to re-engineer supervisory fees, one which will involve aligning fees with the actual cost of supervision. Supervision that requires the most time must be commensurately priced.

This may sound like a statement of the obvious, but during a decade of momentous growth in global regulatory development and increased competition, structural adjustments and fine-tuning were not a top priority. Essentially, we became the builders that kept adding to their house to accommodate increasing requirements. When we stepped back and took a good look at the structure, we saw that refinements were needed. We've already begun this work.

This next step will be carried out in full consultation and transparency with industry partners. We know that value for money is crucial to industry stakeholders, and our friends and neighbours in the community. We are committed to being the great regulator Bermuda needs and deserves.



**Jeremy Cox**  
Chief Executive Officer

## Meeting complex needs: BMA Supervision for 2018

In 2018, the BMA will maintain its robust and risk-based supervisory approach for financial entities operating in Bermuda. The focus will be on ensuring that Bermuda's regulatory framework keeps pace with evolving international standards and meets local and industry needs.

Adherence to a common supervisory culture will be vital to the accomplishment of 2018 goals. Globally, the accepted attributes of effective supervision include being:

- appropriately intrusive
- comprehensive
- questioning
- proactive
- forward-looking and
- proportionate.

In practice, the BMA aims to accomplish this by

- being more responsive and better communicators to all stakeholders including both industry and foreign regulators;
- following through on issues as they progress through the supervisory process (i.e. from on-site findings to final resolution, which may include enforcement);
- promptly processing application requests and responding to all stakeholder queries; and
- resolving issues in a more clinical, proactive and timely manner, especially where enforcement may be necessary.

Technology will be crucial to the BMA's ability to continue to supervise effectively. In the second half of 2018, a new secure online registration and filing system will be launched. INTEGRAT<sup>TM</sup> will replace the existing Corporate Registration Processing (CRP) system, which has been in place since 2009. The increasing quantity and complexity of data collection and management requires a solution that keeps pace with technological advances.

INTEGRAT<sup>TM</sup> is a web application designed to enable entities to manage their regulatory commitments. Over the course of its multi-year roll-out, it will streamline processes by supporting electronic documentation submission which will help to ensure that information is adequate, accurate and current to meet statutory obligations.

This change is part of ongoing efforts to modernise the BMA's information-gathering capacity in response to evolving and complex financial needs. In summary, it will deliver a more integrated approach to managing and administering all aspects of the regulatory lifecycle, including more self-service.

## Insurance

Day-to-day supervisory activities for (re)insurers and insurance managers will include risk-based on-site inspections, qualitative and quantitative analysis and supervisory colleges. Adequate focus will also be given to those identified as requiring close monitoring.

One goal for 2018 is to identify opportunities to further enhance supervisory colleges. Initiatives will include the launch of the BMA College Data Room, a virtual community designed to exchange information securely with other regulators in a protected environment. It will make the BMA one of the first regulators to adopt such a platform, others include Australia's Prudential Regulation Authority and Switzerland's FINMA.

The Insurance Supervision team will be closely involved in creating legislative frameworks for:

- (1) Changes to the Bermuda Solvency Capital Return (BSCR);
- (2) Segregated Account Cells (SAC) and Incorporated SACs regime;
- (3) Insurance Brokers and Agents regime;
- (4) Liquidation waterfall to grant preferential treatment to policyholders.

Operationally, the foundation will be laid for the eventual adoption of technology in supervision (suptech) through the utilisation of artificial intelligence and machine learning,



**Craig Swan**  
Managing Director, Supervision (Insurance)

such as natural language processing, to create supervisory capacity and enhance risk-based supervision. In 2018 this will involve further streamlining data science processes and enhancing capabilities within the Development and Predictive Analytics Team at the BMA. Colleagues from the IT and Project Management teams will be closely involved.

Ongoing engagement with stakeholders in Bermuda and overseas remains a priority. Work will continue with key international standard-setting bodies such as the International Association of Insurance Supervisors (IAIS), Group of International Insurance Centre Supervisors (GIICS), the National Association of Insurance Commissioners (NAIC), European Insurance and Occupational Pensions Authority (EIOPA) and specific regulators in key jurisdictions.

## Innovating supervision

The Insurance Innovation Committee, created in 2017, has developed a cyber supervision regime, including enhancements to the Capital and Solvency Return for disclosures about cyber-related data for commercial (re)insurers. In addition, the committee worked with financial technology experts from industry to identify components of a sound regulatory regime for fintech.

The committee is now focused on the introduction of a so-called regulatory sandbox and innovation hub for insurtech.

The sandbox will enable firms to test new technologies and offer innovative products and services to a restricted number of customers in a controlled environment for a limited time. The sandbox environment, with appropriate safeguards for customers, will be covered by a special licence for its business model. Following the testing period, the firm exits the sandbox to be re-licensed as an existing class entity, becoming fully subject to the relevant legal and regulatory requirements. The aim is to create a "safe space" for innovation in the industry.

The innovation hub will provide a forum for insurtech service providers that do not require a licence to exchange ideas with the BMA, and also for the insurtech industry more widely to obtain guidance and clarification with respect to regulations.

## Banking, Trust, Corporate Services & Investment (BTCSI)

In 2018, the BMA will introduce enhanced legislation for fund administrators and develop legislative proposals for investment businesses to bring Bermuda's regimes in line with international best practice including compliance with the European Union and International Organisation of Securities Commissions (IOSCO) standards. This work will include:

- Issuing a discussion paper, consultation paper and (taking into account market feedback) in relation to strengthening supervisory requirements relating to Fund Administrators
- Introducing legislative proposals to Parliament for fund administrators.

In addition, the BMA will:

- Position regulatory and supervisory frameworks for the various BTCSI sectors to address emerging issues by:
  - Consulting on proposals for holding company supervisory and regulatory requirements for financial groups
  - Working with industry experts to identify the components of effective supervisory and regulatory regimes for financial technology, and the requisite supervisory skill sets
  - Updating and extending guidance covering the outsourcing of critical functions to banks and other licensees
  - Clarifying the role of the Authority in the establishment of private trusts.



**Marcia Woolridge-Allwood**

Senior Advisor, Banking, Trust, Corporate Services and Investment

Ongoing engagement with Bermuda stakeholders and regional and national regulatory authorities on matters of strategic interest to Bermuda remains a priority. These include key international standard-setting bodies such as IOSCO and the European Securities and Markets Authority (ESMA), the Group of International Finance Centre Supervisors (GIFCS) and specific regulators in key jurisdictions.

## Licensing corporate service providers

Bermuda's licensing regime for corporate service providers (CSPs) went live in 2017 and by year end the BMA had issued 62 CSP licences.

Bermuda's CSP legislation has two licence categories: limited CSPs and unlimited CSPs. With an unlimited licence, a CSP can provide all corporate services; limited licence-holders may not form companies or partnerships or alter the register of a company, unless the prior permission of the Authority is obtained. So far, all CSPs have been granted limited licences.

All CSP businesses are now required to have a licence, or they will be subject to full enforcement action.



## Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)

The Caribbean Financial Action Task Force (CFATF) will conduct a mutual evaluation review of Bermuda's AML/ATF framework in 2018. Since 2014 more than 50 jurisdictions have been evaluated under 2012 Financial Action Task Force Standards.

Over the last decade, gap assessments of the BMA's regime have led to changes. These have included expansion of the AML/ATF legal framework for the financial sector, improved policies and procedures, increased enforcement activity and engagement with the National Anti-Money Laundering Committee (NAMLC) and other stakeholders in Bermuda and overseas.

In order to complete the significant amount of work required in 2018, the BMA is increasing AML/ATF-focused resources. This involves: expansion of the AML/ATF department, including the addition of a Deputy Director to lead the team, and the engagement of other BMA departments in AML/ATF work.

Key tasks for 2018 include:

### 1. Ongoing supervisory work

In 2018, the number of on-site assessments will more than double, from almost 30 in 2017 to 70 in 2018. In addition, continued improvements will be made to internal supervisory policies and procedures covering licensing and authorisation, entity level risk assessment, enforcement and ongoing monitoring.

### 2. Remaining gaps in legal framework

Following a rigorous assessment of the AML/ATF frameworks against FATF Technical Requirements, the BMA will work with stakeholders to address gaps, including:

- the coverage of certain lending, leasing and financial guarantees



**George Pickering**  
Senior Advisor, Financial Stability & Anti-Money Laundering

- insurance-related activities conducted in SAC, section 57A and ILS
- amendments to Exchange Control laws
- activities of individual trustees and bare trustees
- proposed regulation of financial groups
- enhanced supervision of investment funds (authorised and closed-end funds)
- the increased scope of enforcement sanctions.

### 3. Preparation of the submissions to the CFTAF assessment team

Support for Bermuda's response to the CFATF mutual evaluation assessment will include preparation of significant portions of the Technical Requirements questionnaire due 24 March and Effectiveness questionnaire due 23 May. Considerable engagement with the CFATF assessment team will be required before, during and after their visit in September/October 2018.

In summary, the BMA is committed to doing everything within its power to enable Bermuda's success during this challenging and crucial year for the jurisdiction.

## Financial stability

During 2018, four key areas of focus will help to safeguard Bermuda's financial stability: macroprudential surveillance; recovery and resolution; international and domestic engagements; and the Financial Policy Council.

In respect of **macroprudential surveillance**, two key priorities are:

- Continued development of surveillance tools that capture the distinguishing characteristics of the Bermuda domestic and international financial sectors. These include tools to monitor property catastrophe risks in Bermuda's international (re)insurance sector and to track employment trends.
- Expansion of the range of macroprudential surveillance deliverables put in the public domain, such as reports and papers on cross-border positions of key financial institutions or on significant domestic developments like Bermuda's housing market.

Regarding **recovery and resolution**, the focus will be on:

- further articulating the operationalisation of the Banking (Special Resolution Regime) Act 2016, and
- commencing work on recovery and resolution of insurers, in particular internationally active insurance groups as well as large domestic insurers.

This work will continue to be guided by international developments, in particular the Key Attributes for Effective Resolution developed by the Financial Stability Board (FSB), and recovery and resolution work currently under way at the IAIS.

## Financial stability continued

In relation to **international and domestic engagements**, the focus will be to:

- actively participate in the work of the FSB's Regional Consultative Group for the Americas and of the IAIS Macprudential Committee, Resolution Working Group
- collaborate more with the Ministry of Finance, particularly in respect to engagement with credit rating agencies and Bermuda's Fiscal Responsibility Panel
- increase the use of data collected by Bermuda's Department of Statistics.

Finally, the BMA will continue to support Bermuda's **Financial Policy Council (FPC)** by providing:

- Secretariat support, and
- comprehensive and timely analysis of key financial stability risks faced by Bermuda as well as analysis of potential opportunities emerging from these risks.

## Operations

The support of a well-qualified and experienced team is essential to the Authority in order for it to achieve operational efficiency and meet its business objectives. The Operations team includes professionals in such diverse areas as communications, finance, human resources, information technology, project management, and records management. In 2018, key initiatives for the teams will include:

- Launch of the new external-facing integrated business platform, INTEGRA™, to streamline regulatory processes. This is a secure online registration and filing system that will help entities manage their regulatory commitments.
- Full review and upgrade of the Authority's website, [www.bma.bm](http://www.bma.bm).
- Continued focus on succession planning and development of the next wave of leaders for the BMA. Mentoring and coaching programmes will be developed to support leadership development.
- Enhancement of the efficiency and performance of the Authority workforce.
- In line with IT strategy "Vision 2020", improved technological support with a view to infrastructure stability, consistency and performance of the network. In 2018, enhanced focus will be applied to cyber-security, including monthly security training for all staff.



**Shanna Lespere**  
Chief Operating Officer

- Improved governance structures across the organisation, in line with the Authority's improved operating model. The major review of BMA functions and ensuing report with recommendations was finalised in 2017 and will be implemented in 2018.
- Review of internal risk-based supervisory/regulatory procedures to ensure they meet international standards.



**Shauna MacKenzie**  
Director, Policy, Legal & Enforcement

## Enforcement

Institutions and individuals will be held accountable for the conduct of their business and compliance gaps, and to this end the Authority will continue its focus on enforcement in 2018. Specific activity will include:

- Continuing to publish details of enforcement actions against licensees found to be in breach of regulations
- Continuing to take robust enforcement action in cases of AML/ATF breach, particularly in cases of repeat breaches
- Implementing an enforcement strategy for dealing with CSP licence breaches
- Policing the perimeter to ensure that no unauthorised activity takes place in Bermuda
- Continuing to take summary action in cases of late or incomplete filings.

## 2018 Legislative Agenda

In line with Bermuda's goal to ensure that it remains a premier financial jurisdiction of choice, the Authority has conducted a comprehensive review of its statutory mandate to ensure the continuity of an appropriate and robust financial sector supervisory framework; and to ensure that it has the necessary resources to be successful in this regard. Therefore, the Authority proposes in 2018 to request for Parliament to, where appropriate; introduce new requirements or approve enhancements to existing obligations of licensed or registered entities in Bermuda. Such is proposed to encompass amongst other things; amendments to the Insurance Act 1978, the Bermuda Monetary Act 1969 and the Banks and Deposit Companies Act 1999. An overview is provided below in respect of such matters:

### Banks and Deposit Companies

- Amend the Banks and Deposit Companies Act 1999 to:
- Embed Basel requirements

### Bermuda Monetary Authority Act 1969

- Prepare a first draft of an amending Bill to the Fourth Schedule to the Bermuda Monetary Authority Act 1969

### Financial Services Groups (Holding Companies)

- Prepare a first draft of a Bill required to introduce a supervisory regime relating to holding companies of regulated entities

### Financial Stability

- Prepare a first draft of a Bill to implement Rules under the Banking (Special Resolution Regime) Act 2016

### Insurance Prudential Standard Rules

- Prepare first drafts of amending statutory instruments to update all Insurance Prudential Standard Rules

### (Re)insurers

- Amend the Insurance Act 1978 to embed:
- Protection of policyholders during wind-up
  - Insurtech proposals
  - Fee increase requirements

### Investment Funds

- Amend the Investment Funds Act 2006 to:
- Introduce regulatory reform requirements
  - Make provision for fee increase requirements

### Trusts and Corporate Service Providers

- Amend the Trusts (Regulation of Trust Business) Act 2001 and the Corporate Service Provider Business Act 2010 to:
- Embed GIFCS standards

### Fintech

- Consult on virtual currency business legislation



## **EXECUTIVE**

**Jeremy Cox**, Chief Executive Officer

**Shanna Lespere**, Chief Operating Officer

**Craig Swan**, Managing Director, Supervision (Insurance)

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