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CEO Introduction

“The Authority will direct its resources to supporting the factors that have contributed to Bermuda’s success as an international financial centre.”

Given our consultative culture and close working relationships with the financial services sector, it is unlikely that our 2017 Business Plan contains any surprises. That is not its aim.

Rather than raising eyebrows, this document’s goal is to continue raising the level of trust and understanding between the Authority and a diversified financial sector, ever hungry for regulatory guidance and information.

There is much to satisfy this appetite within the following pages.

The unstated theme of the Business Plan is, as in previous years, to manage our response to change. While existing and new external influences are largely beyond our control, we can assess the impact of potential changes and how best to respond to them.

This was the philosophy behind the extensive report we published in November 2016 on catastrophe risk. The report concluded that Bermuda’s (re)insurance market is resilient and able to absorb potential large cat losses and still have sufficient capital to settle policyholder obligations.

A top priority for the Authority in the coming year will be to maintain our approach to proportionate supervision. We are committed to standing firm on the platform that has differentiated Bermuda. *Insurance ERM* - the online thought leadership publication - recently produced an article in which it posed the question “why is Bermuda able to attract so much new capital?” The response was: “One major factor is the regulatory environment in Bermuda. Bermudian regulators have been able to capitalise on a period of innovation since the 1980s.” Brad Kading, President of ABIR, contrasted Bermuda’s experience with how regulatory environments could potentially stifle growth. Kading also was quoted referring to Bermuda as having “a great continuity with the regulator so a trust develops and new capital is brought in”.

We will continue to strive to improve our performance, relationships and operations in 2017. This work will be underpinned by the findings of a target operating model (TOM) review of BMA operations undertaken in 2016 with the assistance of an external consultant. The result of this thorough analysis is a multi-year plan to effect improvements in the organisation and operations of the BMA.

In 2017, we will begin to implement changes to the way we work and the way we are organised to align the Authority’s human capital with its changing strategic priorities. Effective succession planning and the development of future leaders remain integral to the success of our focus on enhancing the performance of the BMA’s workforce and business procedures. This initiative is designed to help us to play to our strengths. In the past, these have included greater accessibility, faster speed-to-market, proportionate and judgement-based supervision, and a solid understanding of how the cost of regulation is perceived by our registrants and leveraged by our competitors. I thank you for your input into this process, and we will keep you informed.

The Authority will continue to align itself with the evolving and increasing standards for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. This has already resulted in significant improvements in the Authority’s Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) regime. With the Caribbean Financial Action Task Force (CFATF) mutual evaluation review scheduled for 2018, assessing and

addressing any gaps in the framework is a key priority for 2017. The CFATF review will involve extensive preparations by the Authority, working in collaboration with other organisations in Bermuda. These include the Financial Intelligence Agency, the Bermuda Police Service and the National Anti-Money Laundering Committee.

In the area of banking supervision, the Authority will continue to undertake implementation of Basel III standards, seeking full compliance by 2019.

Investment business and investment funds legislation will be modified, and a supervisory framework developed for Alternative Investment Fund Managers, reinforcing Bermuda's objective of gaining passporting acceptance to the European Union.

A major project for the Authority in 2017 will be the implementation of a supervisory regime for Bermuda's corporate service providers (CSPs). As gatekeepers for the financial services sector, CSPs are critically important to the development and promotion of a culture of good governance which contributes to Bermuda's standing as a reputable international business centre.

On the insurance side, it is mission critical that our regulatory environment remains relevant and keeps up with the pace of change in the private sector. This is why, in 2017, we will be forming a team to consider the future training needs of those responsible for supervising Bermuda's fast-moving risk industry, known for its underwriting expertise and rapid innovation.

We will be working with insurance market experts to assess what changes need to be made to our existing framework and supervisory skills to enhance our ability to respond to future developments, such as those in the FinTech space. This is an exciting initiative that will involve extensive collaboration with the industry.

Additionally, the Authority will develop modifications to the Bermuda Solvency Capital Return regulations affecting insurance intermediaries and introduce measures designed to grant preferential treatment to policyholders in the event of liquidation.

Other insurance developments in 2017 will bring about the first filings of the Electronic Statutory Financial Return. As a new analytical framework for annual reviews of Limited Purpose Insurers, the e-SFR is expected to create better data on our captive insurers.

As in prior years, thought leadership and advocacy will remain the hallmark of our work with international standard-setting bodies. These entities include the International Association of Insurance Supervisors (IAIS), the National Association of Insurance Commissioners (NAIC) and the European Insurance and Occupational Pensions Authority (EIOPA).

In terms of the economic health of Bermuda, the Authority will continue to identify, assess and monitor risks to the jurisdiction's financial stability. Working with the Financial Policy Council, the Financial Stability Committee and the Fiscal Responsibility Panel, the Authority will publish reports and undertake ad hoc research based on its macro-prudential surveillance of these risks.

Further progress towards the completion of a special resolution regime for Bermuda's banks will also feature among the Authority's financial stability objectives.

Enforcement will remain a critical element of our regulatory strategy, particularly in the area of Anti-Money Laundering (AML)/ Anti-Terrorist Financing (ATF) and sanctions compliance. We expect to issue a revised and consolidated statement of enforcement principles by the third quarter.

As in previous years, vital operational support services enable us to execute efficiently and 2017 will be no exception.

Among its priorities, the Authority will focus on implementation of a planned shift towards centralised data management and a more secure and higher-performing network. Additionally, as part of its improved IT capabilities, the Authority has begun work on a project that will result in the 30th June launch of an upgraded registry of beneficial owners of Bermuda's legal and corporate entities.

Part of the Authority's overall challenge lies in our ability to attract high-calibre candidates for key, vacant positions while continuing to develop the necessary bench strength with the skills that will help us respond to the risks of the future. In 2017, we will also be addressing organisational, governance and cultural issues. We are acutely aware of the importance of service standards and how these impact international business.

The implicit promise of our Business Plan is that in 2017, the Authority will direct its resources to supporting the factors that have contributed to Bermuda's success as an international financial centre: by maintaining recognition among our jurisdictional peers as a world-class regulatory regime and by emphasising an operational environment that is perceived as favourable by financial institutions.

The coming year will be a challenging one for Bermuda. I cannot say we have nothing to worry about. At times like this, it is worth remembering why some of the world's leading corporations choose Bermuda. Our reputation as a financial centre depends on our ability to continue executing and consistently delivering supervision to the high standard expected of us.

Jeremy Cox

Chief Executive Officer

Supervision

The Authority has built an effective regulatory framework that has achieved international recognition. In 2017, it will maintain its pragmatic supervisory environment for the financial entities that operate in Bermuda. The focus will be on ensuring that Bermuda's regulatory framework keeps pace with evolving international standards and the diversification of Bermuda's financial sector. The Authority will continue to strengthen its Anti-Money Laundering (AML)/Anti-Terrorist Financing (ATF) regime and work with other stakeholders across Bermuda to prepare for the 2018 Caribbean Financial Action Task Force (CFATF) review. We will also develop and consult on proposals for holding company supervisory and regulatory requirements.

Insurance

The Authority will continue its day-to-day supervisory activities for (re)insurers, including risk-based on-site inspections, qualitative and quantitative analysis, and supervisory colleges. While the Authority received favourable feedback in 2016 in relation to its colleges, as in other areas, a goal for 2017 is to identify opportunities to introduce further enhancements. One source the Authority uses to gauge that it is achieving its objective of continual improvement is a survey of college members. The dialogue and quest to identify opportunities for enhancements improves trust levels between overseas supervisors and the Authority and results in expanded communication with Bermuda-based corporate groups.

Innovation and collaboration

As a forward-looking supervisor, in 2017 the Authority will form an Insurance Innovation Committee to identify areas for

future employee training and to publish thought leadership materials. In addition, the Authority will work with Financial Technology (FinTech) experts from industry to explore the need for associated regulation and development of specific supervisory skills related to FinTech. The Authority will develop legislative frameworks for:

- Changes to the Bermuda Solvency Capital Return (BSCR)
- Insurance intermediaries
- Liquidation waterfall to grant preferential treatment to policyholders

In 2017, the first filings will be received through the Electronic Statutory Financial Return (e-SFR) application. This will present an opportunity for the Authority to implement a new analytical framework and to publish expanded statistics in relation to Limited Purpose Insurers, i.e. Classes 1,2,3,A,B and Special Purpose Insurers (SPIs).

The Authority will continue to improve the design of Bermuda's Commercial Insurer Regime in 2017 and will engage industry to ensure that new rules are fit for purpose and that 2016 enhancements are implemented appropriately. Ongoing engagement with Bermuda stakeholders and regional and national regulatory authorities on matters of strategic interest to Bermuda will remain a priority.

Thought leadership and advocacy

The Authority will continue to work with key international standard-setting bodies such as the International Association of Insurance Supervisors (IAIS), and will continue engagement with the National Association of Insurance Commissioners (NAIC), European Insurance and Occupational Pensions Authority (EIOPA) and specific regulators in key jurisdictions.

Banking, Trust, Corporate Services & Investment (BTCSI)

The Authority continues to ensure the regulatory frameworks for Bermuda's banking, asset management and corporate services sectors remain fit for purpose and aligned with international standards. Key workstreams for 2017 include:

- The ongoing phasing in of Basel III banking capital/liquidity/credit risk standards, with a view to achieving full compliance by 2019
- Publication of a Discussion Paper proposing enhancements for the investment business and investment funds regimes to reflect new international standards for the supervision/regulation of the respective sectors
- Development of supervisory framework/guidance for Alternative Investment Funds Managers (AIFM) in anticipation of passport acceptance for Bermuda
- Implementation of the supervisory regime for Corporate Service Providers (CSPs)
- Deployment of a thematic review of trust sector compliance with the Corporate Governance Policy for Trust, Investment Business and Fund Administrators
- Completion of the Money Service Business Act, policy and guidance notes
- Consultation with banks to develop individual firm recovery plans
- Support for the activities of the Financial Policy Council and Banking Liaison Panel
- Participation in trust/CSP supervisory colleges under the auspices of the Group of International Finance Centre Supervisors (GIFCS). In November, the Authority will host the 2017 GIFCS Plenary conference in Bermuda
- Enhancement of regulator-to-regulator enquiries confirming background of new market entrants

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

The coming year will be an active one for the jurisdiction as it finalises the necessary preparations for the 2018 CFATF review. There will also be several key initiatives undertaken to further strengthen the Authority's AML/ATF framework:

- **Updating the risk-based assessment of AML/ATF risks**
The Authority will continue to strengthen its assessment of risks at the sectoral and institutional levels based on expanded data collection, improved modelling and advice from an external consultant. An update of Bermuda's National Risk Assessment, which will include active involvement from the Authority, is planned for 2017.
- **Strengthening supervisory policies and procedures**
Utilising the results of the risk-based assessment, industry questionnaires and on-/off-site results from 2010 to 2016, the Authority will strengthen and enhance the AML/ATF supervisory framework by focusing on higher risk sectors, lines of business and customer types. On-sites will involve a range of additional techniques including thematic reviews based on previously identified breaches in the regulations.
- **Expanding coverage of the AML/ATF framework**
The Authority will continue to review AML/ATF policies and procedures as part of the CSP licensing process. The completion of updated Guidance Notes is planned for the investment business sector, CSPs and money service businesses.
- **Stakeholder engagement**
The Authority is planning on increasing the level of engagement and communication with industry on AML/ATF initiatives. Continued collaboration and cooperation is planned with the National Anti-Money Laundering Committee, Financial Intelligence Agency, Bermuda Police Service, and other authorities including the Barristers' and Accountants' AML/ATF Board.

Financial Stability

- **Macroprudential surveillance, regulation and supervision**

The Authority will continue to identify, assess and monitor key risks to financial stability in Bermuda. It will publish reports related to the macroprudential surveillance of risks to Bermuda's financial stability, undertake ad hoc research on risks that are relevant to financial stability and continue to support the functioning of Bermuda's Financial Policy Council, Financial Stability Committee and Fiscal Responsibility Panel by coordinating policy/research papers and making recommendations for consideration

- **Resolution framework**

The Authority will continue to develop a resolution framework for Bermuda's banks, reviewing its adequacy against international best practice

- **Stakeholder engagement**

Take part in and contribute to international and domestic working groups and initiatives relevant to Bermuda's financial stability, including:

- International – Financial Stability Board's Regional Consultative Group for the Americas, IAIS Macroprudential Policy and Surveillance Working Group, the Bank for International Settlements' International Locational Statistics, International Monetary Fund, and credit rating agencies (under the coordination of the Ministry of Finance)
- Domestic – Ministry of Finance, Department of Statistics, Association of Bermuda Insurers & Reinsurers, Bermuda Business Development Agency, Bermuda Stock Exchange and Bermuda Deposit Insurance Corporation

Enforcement

The Authority will continue its renewed focus on enforcement in 2017, particularly in the areas of AML and sanctions compliance. The Authority will also continue to publish details of enforcement actions in press releases in 2017. In 2016 and Q1-2017, the Authority published enforcement actions taken against two firms licensed under the Investment Business Act 2003. Such increased transparency must continue moving forward as it is critical to Bermuda's reputation for companies in breach of the regulations to be publicly held to account. The Enforcement Statement of Principles will be revised and consolidated, to be issued by Q3-2017.

Operations

In order to carry out its business objectives for the year, the Authority requires robust operational support. In 2017, key initiatives for the teams will include:

- Identification and development of future leaders at the Authority, and succession planning in all areas
- Enhancement of mentoring and coaching programmes to support leadership development
- Alignment of human capital with changing strategic priorities towards implementation of a "target operating model" for the Authority
- Extended scope of the initiative to enhance performance of the Authority's workforce by assessing and building up technical competencies
- Review and updates of business processes and procedures to ensure improved governance structures and risk monitoring
- Enhancement of the policy consultation process on key regulatory initiatives
- Implementation of IT strategy towards centralised data management and network improvements
- A major project resulting in the launch of Bermuda's upgraded beneficial owners' registry by 30th June 2017

| | 2017 | | | | 2018 | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|----|----|----|------|----|----|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Investment Business/Funds Reform | | | | | | | | |
| Issue Discussion Paper | | | ● | | | | | |
| Issue Consultation Paper with draft legislation | | | | | ● | | | |
| European Union AIFM Passport | | | | | | | | |
| Implementation | | | ● | | | | | |
| Insurance | | | | | | | | |
| Policyholder protection: | | | | | | | | |
| Issue Consultation Paper | | ● | | | | | | |
| Legislation in Parliament | | ● | | | | | | |
| Prudential Rules – BSCR: | | | | | | | | |
| Revise Draft Prudential Rules | | ● | | | | | | |
| Finalise and publish Prudential Rules | | | ● | | | | | |
| Brokers and agents regime: | | | | | | | | |
| Issue Consultation Paper | | | | ● | | | | |
| Legislation in Parliament | | | | | ● | | | |
| Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) | | | | | | | | |
| Guidance Notes finalised for Corporate Service Providers and Money Service Businesses | | | ● | | | | | |
| AML/ATF Technical Assessment | | | | | | | | |
| Amendments, Insurance – section 57A | | | ● | | | | | |
| Amendments, Segregated Account Companies | | | ● | | | | | |
| Holding companies | | | | | | | | |
| Publish Discussion Paper | | | | ● | | | | |
| Financial Stability | | | | | | | | |
| Continue working with partners to develop and implement a financial stability framework for Bermuda, including new legislation for banking intervention powers | | | | | | | | ● |



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