

2020

BUSINESS PLAN



*Our regulatory landscape is one of continuous transformation that will
require nurturing trust and fostering resilience.*

Jeremy Cox

Executive Chair



Executive Chair's Message

One of the problems with publishing a new business plan is that it tends to create the expectation it will contain a raft of new ideas. Sadly, that is not always possible. In fact, I should flag a health warning here: some of what you will read on the following pages will seem familiar.

We have entered a new decade still grappling with the challenges encountered in the previous one. These include international regulatory reform, structural changes in the global financial sector, rapid technological innovation and a global battle for talent.

While some of the material in the 2020 Plan does indeed reflect new thinking, a good chunk of it is devoted to addressing the often intractable challenges arising from factors over which we have little or no control.

However, we can, of course, control how we respond. In that sense, 2020 will see us taking steps to enable the Authority to play to its strengths. Put simply, the Authority will be placing greater emphasis on leveraging existing resources, most notably in the area of intellectual capital and, inevitably, technology.

It should be emphasised that there will be no change in our core focus on job one. In other words, efforts to support our reputation as a premier financial services centre will remain a priority for the foreseeable future. Equally, there will be no diminution of our commitment to protect financial services consumers.

It goes without saying that we will build on the successes of the last year. In 2019, the Authority supported Bermuda's efforts to address international pressure to revise economic substance requirements. Our insurance regime received Reciprocal Jurisdiction status from the National Association of Insurance Commissioners (NAIC), extending the success of meeting the European Union's

(EU) Solvency II standards. Bermuda's ratings from the Financial Action Task Force (FATF) were amongst the highest in the world since the adoption of the FATF 40 Recommendations in 2012, including the highest Technical Compliance rating provided to date.

This year, we will again strive to ensure that Bermuda's regulatory framework is recognised internationally as being of the highest standard. We will do this through active participation with the international standard setters for banking, insurance and securities; active collaboration, information exchange and joint supervision with peer regulators, where required; and active engagement with key stakeholders in Bermuda. The Authority will also be preparing for an international assessment of the trust and corporate service providers framework.

At the same time, by way of increased consultation with industry, we will look for ways to streamline regulatory costs while retaining our supervisory and enforcement standards. This will include a wide range of tactics, such as the production of a roadmap with initiatives ranging from seeking efficiencies in our own operations, to collaborating with industry to build an innovative solution that eases the regulatory compliance burden.

The credibility of the Bermuda regulator has been highlighted as one of the core reasons why Bermuda continues to be an attractive jurisdiction for international business. Accordingly, we will be adopting a more effective communication approach. Our messages need to be appropriately and consistently delivered to policymakers and other relevant stakeholders. The Authority will need to make sure its story is being heard by the decision-makers, not only by turning up the volume but also by carefully fine-tuning what we say, how we say it and who we say it to. Decibels alone are unlikely to suffice.



Executive Chair's Message continued

Our story hasn't changed greatly over the years. It is essentially an account of how the Authority has kept its crosshairs trained on the target of becoming and remaining a leading risk-based financial services regulator; how its rigorous gatekeeping has ensured a selective approach to the type of business we have been prepared to incorporate and oversee; and how we have grown to become a major international centre for insurance and financial services companies and, more recently, insurance-linked solutions and digital assets.

While we will continue to focus on initiatives that maintain our position as a premier domicile for global financial services, some developments impacting the regulatory landscape will pose a challenge.

Sweeping technological innovation has emerged as the principal force for unrelenting change. Machine learning, the Internet of Things and blockchain have arrived. In an industry long criticised for its poor record of innovation, Artificial Intelligence (AI) is changing the nature of work in a broad range of jobs and professions, including several data-intensive functions of the Authority. How soon crowdsourcing and decision-making algorithms will be making an impact on financial services is anyone's guess!

The Authority is fully aware of the macro and micro consequences of this transformation. It has produced a Business Plan for 2020 designed to provide a transparent, flexible, data-driven regulatory regime. Compliance with international standards of best practice is an implicit and critical feature of the Plan, as is its focus on satisfying near and long-term goals.

The Plan identifies core components of the Authority where innovative new policies are required. These include measures to invigorate board governance, build up our

talent management strategy, break down internal silos to improve interdepartmental cooperation within the Authority and further harness people power across the entire organisation.

I alluded to some of these initiatives earlier in referencing the need to play to our strengths by leveraging existing resources. Intellectual capital is under-utilised at the Authority and here I include the intellectual capital residing in our Board of Directors.

The Authority is not alone in failing to wholly utilise the expertise of its directors. In a recent poll of directors in the United States, fewer than a quarter of those surveyed claimed to fully understand the strategies of the companies they serve. Accordingly, we have sought to strengthen the focus of the board on our key strategic initiatives, enlisting their support to establish a series of strategic pillars which in turn are linked to internal and external objectives.

Proposed initiatives arising from this work include a suggestion to adapt the structure of future board meetings to focus more clearly on strategic initiatives and key risks facing the Authority. Another matter up for consideration at board level is a proposal to support Bermuda's work in meeting the economic substance requirements identified by the EU and the Organisation for Economic Co-operation and Development (OECD). The 2020 Business Plan also includes a proposal to strengthen the resilience of Bermuda's financial sector and the Authority to the threat of cyber attacks.

Bermuda's ability to adapt and reinvent itself has allowed it to remain a premier domicile for conducting global financial services business. The oxygen that enables this

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to be sustained at the Authority is the creation of a talent pipeline, generating the intellectual capital resources it will need in the future.

The Business Plan recognises this imperative and acknowledges that the Authority's primary asset is knowledge capital. In 2020, we will continue to attract top-tier talent through multiple recruiting efforts, as well as up-skilling and re-skilling current employees where necessary.

Bench strength is vital to the future success of any team. Team BMA is no exception, not least because the coming year will be one of transition for our senior management. In this regard, I have absolutely no hesitation in welcoming Craig Swan to the position of Deputy Chief Executive Officer, effective January 1, 2020. Craig is a respected, veteran supervisor with a high profile in international regulatory circles. He has championed a positive work culture and proactively encouraged innovation during his 13 years at the Authority. Craig will be working closely with me as we prepare for my departure from the BMA in 2021 and Bermuda's response to the challenges ahead.

One such challenge will be competition from other jurisdictions and the temptation to engage in a numbers battle for international business formations. The real battle is not for new businesses but for the right kind of new businesses; ones that require our professional service infrastructure and will fit with the high-quality entities that have become associated with the Bermuda brand.

We know the financial services industry will continue to evolve and expand in the years ahead. It wasn't long ago that FinTech, Cyber and InsurTech were unheard of. Now they are a routine part of our daily language. The challenge for the Authority is to keep pace by pinpointing and

developing our collective strengths while taking full advantage of our opportunities.

In short, our vision for 2020—and beyond—is to carry out the BMA's responsibilities in ways that efficiently and effectively serve the Bermuda community, while protecting the best interests of consumers of Bermuda regulated institutions.

With 50 years of public service to its credit, the Bermuda Monetary Authority has a proud record of fulfilling its duties with integrity and transparency. As we begin our next 50 years, it is my honour to present a Business Plan with goals and priorities designed to meet the challenges of the year ahead—and the years to come.



Jeremy Cox
Executive Chair

BMA Strategic Goals

- Enhance Bermuda's regulatory framework and address the threats and opportunities arising from regulatory change in peer jurisdictions
- Strengthen relationships with international standard-setters and national regulators in order to promote Bermuda's position as a world-class international financial centre
- Harness the power of emerging technologies to increase operational efficiency and produce greater supervisory efficacy
- Cultivate and retain BMA talent, ensuring the Authority has the relevant skills and agility to achieve its mandate over the long-term
- Promote financial stability by working with Bermuda stakeholders to identify and address risks to the financial system while ensuring that the BMA's macroprudential framework remains both sensitive to Bermuda's unique risks and consistent with international standards
- Develop the oversight of financial services sector conduct, and support the protection and awareness of financial services consumers

Regulatory Framework and Consumer Protection

The Authority will continue to enhance its regulatory framework, support the protection of consumers and promote the recognition and understanding of its regulatory regime. Furthermore, the BMA will continue striving to deliver global consistency in the development and application of international standards while maintaining pragmatism.

Infrastructure and Innovation

The BMA will strive to support Bermuda's financial services ecosystem, strengthen its operations and stand on the international stage as a thought leader. Internally, the BMA will remain on its current path to reduce risks by strengthening its reporting and oversight of enterprise risk, integrating Enterprise Risk Management (ERM) into its strategic planning process and further embedding the soundest possible risk culture. Additionally, the BMA will continue to enhance its innovative approach to technology via the roll-out of its multi-phased IT Vision 2025.

People

The Authority's objective is to develop a highly skilled team with the correct mix of capabilities and characteristics to meet the future demand. This will be accomplished by seeking and attracting top-tier talent through multiple recruiting efforts, upskilling and reskilling our current workforce, preserving the increasingly dynamic team that we are developing and fulfilling our succession plan for a smooth transition in leadership positions.

Financial Stability

The BMA will carry on the development and implementation of our comprehensive macroprudential regulatory approach that recognises emerging threats to Bermuda's financial stability while building a more stable and durable financial environment. Tied to this is the essential work with peer regulatory agencies, an inextricable link in the creation of financial stability across the shifting landscape of the financial services industry.

Community Matters

The Authority recognises the important role that social responsibility plays in its relationship with the local community. This commitment is instilled throughout the organisation and the BMA will continue to foster it through various initiatives that give back to the island and to those who inhabit it.

Craig Swan

Deputy Chief Executive Officer



It is clear that aligning Bermuda's financial sector regulation with international standards is fundamental to promoting ongoing confidence in its financial institutions. Tied to this is another strategic objective to enhance the jurisdiction's reputation as a leading international financial centre by strengthening relationships with multi-national and national standard setters. These relationships, combined with pragmatic enhancements to Bermuda's regulatory frameworks and the administration of high-calibre supervisory colleges, will mitigate any potential threats arising from changes in key jurisdictions with whom Bermuda does business in 2020.

Insurance

In 2020, the BMA will continue to focus on policyholder protection and managing threats to its credibility by making appropriate enhancements to its commercial (re)insurance supervisory process and regime, while maintaining its responsive approach.

Specifically, this will involve rolling out three new insurance classes (fully collateralized (re)insurers, innovative insurers and insurance marketplaces) and consulting on Segregated Accounts Companies (SAC) and Incorporated SACs (ISAC). The BMA will explore the continued introduction of innovative structures to meet future developments in the financial services sector. The following thematic, thought leadership materials will also be published:

- Alternative Capital Report
- Captive Report
- Catastrophe Risk in Bermuda Report
- Cyber Reports

As it relates to the BMA's international peers, a focus for 2020 is updating Bermuda's regime to continue meeting the International Association of Insurance Supervisors' (IAIS) Common Framework (ComFrame) for Internationally Active Insurance Groups (IAIGs). The BMA will also continue to engage and deepen relationships with the

European Insurance and Occupational Pensions Authority (EIOPA), the National Association of Insurance Commissioners (NAIC) and the Group of International Insurance Centre Supervisors (GIICS).

Digital Asset Business (DAB)

Ensuring that Bermuda's DAB framework sets the benchmark for global standards is central to the BMA's 2020 work plan. This includes taking a leadership position in the promotion of cross-border collaboration for global FinTech ecosystem growth and development, and increased collaboration with other leading FinTech jurisdictions and the Global Financial Innovation Network (GFIN). Other DAB objectives for 2020 include:

- Continued focus on investor protection
- Initiating a benchmarking project to compare the BMA's regulatory framework with other leading FinTech jurisdictions
- Building and deploying an effective risk-based supervisory programme to ensure compliance with the regulatory framework

Economic Substance

The BMA will formalise and execute a coordination plan to clearly outline the role it will play in assisting the Registrar of Companies (ROC) with economic substance implementation moving forward.

Investment Funds

In relation to investment funds, the Authority will implement changes to the Investment Funds Act 2006 (IFA) as required and further develop its integrated e-filing portal, INTEGRA®, to facilitate the supervision and regulation of funds. Additionally, in 2020, the BMA will develop a framework for establishing ISACs licenced under the IFA.

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

The BMA will continue to implement its updated Medium-Term Strategy (2018-2021). The focus will be continued enhancement to the operational efficiency and effectiveness of the BMA's AML/ATF framework, while ensuring its ongoing alignment with the FATF 2012 recommendations, methodology and international best practices.

The BMA will maintain its close working relationship with the National Anti-Money Laundering Committee (NAMLC), its sub-committees and other Bermuda stakeholders. Key deliverables in this context are to address any BMA actions arising from the Mutual Evaluation Review (MER) of Bermuda's AML/ATF framework, published in Q1 2020. The Authority will also continue to implement Bermuda's National AML Policy and deliver the relevant components of the 2020 Terrorist Financing and Money Laundering National Risk Assessments.

The BMA will execute its day-to-day supervisory responsibilities for the regulated financial industry using its well-established, risk-based approach to onsite and offsite inspections. This will be further enhanced using expanded information obtained during annual data calls.

Industry-focused outreach will focus on communicating observed trends in compliance deficiencies (particularly for higher-risk sectors) and continuing to support the emerging FinTech sector. With respect to the e-ID project in Bermuda, the BMA will continue to support the project through providing its AML/ATF regulatory expertise as required.

An increasingly important arena is that of technology and innovation, giving rise to two key objectives. The first is to prepare for the adoption of technology and innovation that enhances supervisory processes through incorporating AI and machine learning. The second is a strong focus on staying abreast of innovation within the various regulated sectors to ensure that ongoing regulatory oversight remains pertinent and informed.

Financial Stability

The BMA will promote financial stability in 2020 by working with Bermuda stakeholders to identify and address risks to the financial system. This includes ensuring that the BMA's macroprudential policy framework remains sensitive to Bermuda's unique risks while also consistent with international standards.

In this regard, the BMA will continue to develop its macroprudential surveillance framework to monitor new and continuing threats, and will continue to support Bermuda's Financial Policy Council (FPC) by preparing analyses and research on topics identified by FPC members.

In relation to Bermuda's recovery and resolution framework, in 2020 the BMA will identify changes required in the Banking (Special Resolution Regime) Act 2016 to align it with international best practice.

Maintaining active participation in the following international bodies remains a priority:

- Financial Stability Board's (FSB) Regional Consultative Group (RCG) of the Americas
- IAIS Macroprudential Policy Committee
- Bank for International Settlements (BIS)
- Financial Stability Institute (FSI)
- OECD's Insurance and Private Pensions Committee (IPPC)

Marcia Woolridge-Allwood

Senior Advisor, BTCSI



Banking, Trust, Corporate Services & Investment (BTCSI)

2020 will be a year of engagement with domestic associations and key stakeholders to outline the changes that the Authority has made to Bermuda's regulatory frameworks in line with international standards and to meet the ever-demanding responsibility to oversee Bermuda's dynamic financial services sector. Included in this work programme is the approval of material outsourcing initiatives by financial institutions, which was the subject of extensive consultation in 2019; the operationalisation of a regulatory sandbox for qualified licencees in the BTCSI sectors; and developing proposals related to cyber operations risk management standards and consulting on them in 2021.

Banking

In 2020, the Authority will assess its strategy for Bermuda's banking sector in light of amendments to the Banks and Deposit Companies Act 1999 regarding the restricted class of banks and the powers for the Authority to take action to manage a troubled bank.

As standards from the Basel Committee on Banking Supervision are finalised, the Authority will issue a consultation paper in 2020 covering proposed changes to its regulatory capital guidance and reporting templates related to credit risk, and Pillar 2 and 3 assessments.

Investment Business

During 2019, the Authority led extensive discussions with the market aimed at introducing legislative proposals for a new Investment Business Act to replace the 2003 statute. In early 2020, a draft Act will be issued for consultation, together with complementary revisions to the ancillary policy, guidance and codes. The new legislation will likely expand the classes of firms eligible for licensing under the Act to accommodate those firms looking to undertake investment and financial technology-related businesses, and exchange models.

Trust and Corporate Service Providers (TCSP)

Following the passing by Parliament in mid-2019 of the amendments to the Trusts (Regulation of Trust Business) Act 2001 and the Corporate Service Provider Business Act 2012, preparations are well underway to ensure adherence to the Group of International Finance Centre Supervisors' (GIFCS) Standard on the Regulation of Trust and Corporate Service Providers, in line with Bermuda's commitment to the GIFCS membership.

Shanna Lespere

Chief Operating Officer, FCPA, FCMA



Operations

An overarching, multiyear objective for the BMA is to increase productivity and efficiency while reducing costs. As such, in 2020, the BMA will continue to develop a sustainable funding framework to ensure it is operating in a manner that reflects a longer-term strategic view.

People

The BMA will continue to attract, develop and retain a team of highly skilled professionals to achieve its mandate. In 2020, a specific set of initiatives will be undertaken to build on the BMA's existing talent management strategy, as well as further development of succession plans for all executives and senior management positions. Ensuring the BMA remains a flexible, dynamic and collaborative work environment, while aligning staff resources with strategic priorities, are key objectives.

Technology

The Authority will continue to align its corporate objectives and deliver operational effectiveness. This includes the use of technology to support the organisation and its regulatory initiatives in phases two and three of IT Vision 2020. Furthermore, to ensure continuity, IT Vision 2020 will then be used as the foundation in creating long-term strategic objectives for IT Vision 2025. The focus of IT Vision 2025 includes a plan to implement business intelligence, AI and natural language processing within the BMA's supervisory processes.

Vigilance remains the watchword when it comes to implementing effective network security strategies to mitigate potential cyber risks. The BMA has demonstrated leadership by ensuring these proactive strategies have not only been implemented internally but also within the entities we supervise.

Other specific technology objectives identified for 2020

relate to a multi-phased implementation and integration of two comprehensive solutions: Electronic Records Information Management (ERIM) and Enterprise Data Warehouse Solution, accordingly.

The BMA's INTEGRA® web portal will continue to rationalise existing BMA applications per an established roadmap. In 2020, this will include replacing the Electronic Regulatory Information Compliance Application (ERICA) for investment fund filings. Simultaneously, work will also begin this year on building functionality to submit financial returns for insurers via INTEGRA® by 2021.

Project Management

Underpinning the BMA's projects will be the Project Management Office (PMO) whose goal is to break down projects into their component parts and move the BMA closer to its milestones. Through these efforts, the BMA will drive consistency and regimen into the processes of each project. Furthermore, the BMA will have a company-wide elevation in the clarity of goals, increased accountability at all levels and buy-in throughout the organisation. The following are the main 2020 initiatives:

- Providing enhanced reporting around project key performance indicators (including return-on-investment and benefits realisation)
- Implementing a formal programme to coordinate on-off boarding/maintenance of vendor relationships
- Providing additional education, coordination and oversight of the organisation's change management process

Bermuda Currency

Finally, the BMA will continue to supply quality currency that is readily accepted and secure against counterfeiting.

Michael J Burns

Director, Legal Services & Enforcement



Corporate Authorisations

Following an upgrade to Bermuda's beneficial ownership registry in 2017 and the rationalisation of the BMA's Corporate Registration Processing (CRP) system into INTEGRA® in 2018, the BMA's strategic priorities for Corporate Authorisations in 2020 include:

- Reviewing and strengthening the current vetting processes
- Gathering additional information about local companies via data calls
- Enhancing industry outreach and engagement for beneficial owners and exchange control matters
- Additionally, in 2020, the BMA will execute a compliance and enforcement plan for exchange control requirements, and assist the Ministry of Finance (MoF) and other relevant stakeholders in ongoing assessments related to the beneficial ownership regime (e.g. UK/OECD/Caribbean Financial Action Task Force (CFATF))

2020 Legislative Agenda

Over the next 12 months, the BMA will enhance its governance and enforcement functions in the following key areas:

Governance

- Advance the efficiency and effectiveness of the Board of Directors' governance process by reviewing the operation of Board Committees and procedures for Board reporting

Enforcement

- Review with the Board the delegation of enforcement powers and the restructuring of the appeal process
- Revise the internal processes for referring and reviewing cases to improve efficiency and ensure consistency of actions taken

1. AML Legislation

- In coordination with the National Anti-Money Laundering Committee (NAMLC), assist in addressing any recommendations arising out of the Mutual Evaluation Review assessment

2. Banking

- Undertake consultation on changes to Banking (Special Resolution Regime) Act 2016 and Banks and Deposit Companies Act 1999 to incorporate standards set out in the Key Attributes of Effective Resolution Regimes for Financial Institutions issued by the Financial Stability Board

3. Conduct Matters

- Consult on a market conduct regime for the financial services sector

4. Fund Administration Providers Regime

- Consult on Technical Requirements

5. Insurance

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| a) | Cyber Reporting <ul style="list-style-type: none">• Finalise consultation on amendments to legislation |
| b) | Incorporated Segregated Accounts Companies Act 2019 (ISAC) <ul style="list-style-type: none">• Undertake consultation on related amendments to financial services legislation |
| c) | International Association of Insurance Supervisors (IAIS) Common Framework (ComFrame) for Internationally Active Insurance Groups (IAIGs) <ul style="list-style-type: none">• Finalise consultation on amendments to legislation arising out of continued adoption of the IAIS ComFrame for IAIGs |

6. Investment Business

- Undertake consultation on the Investment Business regime to align with international standards

7. Digital Asset Business

- Enhance the Digital Asset Business Act to introduce a new licence class to facilitate additional transparency regarding sandbox activities
- Develop rules for digital asset business
- Enhance the cybersecurity requirements for digital asset business

8. Digital Asset Issuance

- Develop rules, code of practice and statement of principles

9. Bermuda Monetary Authority Fees

- Consult on new fees arising from changes to the financial services legislation

2020

Community Matters

As the BMA progresses into the next decade, it brings with it a continued dedication to the community. With the spirit of charity comes a responsibility for giving back to the place that the Authority calls home, Bermuda. It is the bridge between the community and the BMA, one that the Authority has maintained for years, which keeps the organisation grounded and balanced.

In 2019, the Authority increased its social responsibility efforts and introduced 'BMA Days of Giving' where staff worked with local charities and institutions on a variety of community service projects. This philanthropic mission supports staff fundraising events along with project-based initiatives that produce tangible outcomes through voluntary labour provided by members of the BMA team. The value created from these initiatives has made it clear that the organisation should continue participating in these projects in 2020.

The BMA's focus will remain with children and families; arts and culture; the environment; education; and seniors. The Authority will revisit charities it has a history of supporting, as well as identifying new partners as the BMA pursues giving back to its community.





Executive

Jeremy Cox, Executive Chair

Craig Swan, Deputy Chief Executive Officer

Marcia Woolridge-Allwood, Senior Advisor, BTCSI

Shanna Lespere, Chief Operating Officer

Michael J Burns, Director, Legal Services & Enforcement

BMA House

43 Victoria Street, Hamilton HM 12, Bermuda
P.O. Box 2447, Hamilton HM JX, Bermuda

Tel: (441) 295 5278 Fax: (441) 292 7471

Email: enquiries@bma.bm

www.bma.bm