

SM/08/295  
Correction 2

September 25, 2008

To: Members of the Executive Board  
From: The Secretary  
Subject: **Bermuda—Assessment of Financial Sector Supervision and Regulation**

The following factual correction to SM/08/295 (9/8/08) has been provided by the staff:

**Factual Error Not Affecting the Presentation of Staff's Analysis or Views**

**Page 4, para. 2, line 1:** for “Insurance supervision for the commercial insurers and reinsurers is largely observant of the IAIS Core Principles”  
read “Insurance supervision for the commercial insurers and reinsurers has a high level of observance of the IAIS Core Principles.”

Questions may be referred to Ms. Zephirin, MCM (ext. 38680).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



**GLOSSARY**

AGC	attorney-general's chambers
AML	anti-money laundering
ATFA	The Anti-Terrorism (Financial and Other Measures) Act 2004
ART	alternative risk transfer
Authority	Bermuda Monetary Authority
BDCA	Banks & Deposit Companies Act 1999
BMA	Bermuda Monetary Authority
BMAA	Bermuda Monetary Authority Act 1969
BSX	Bermuda Stock Exchange
CDD	customer due diligence
CIS	collective investment scheme(s)
CFT	combating the financing of terrorism
CP	core principle(s)
CSP	companies and trusts service providers
DAR	detailed assessment report
DPP	Director of Public Prosecutions
FATF	Financial Action Task Force
FIA	Financial Intelligence Agency
FIU	financial intelligence unit
FT	financing of terrorism
GWP	gross written premium
IA	Insurance Act 1978
IAC	Insurance Advisory Committee
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
ID	Insurance Department
IBA	Investment Business Act 1998
IBA/03	Investment Business Act 2003
IFA	Investment Funds Act
IOSCO	International Organization of Securities Commissions
ML	money laundering
MLRO	money laundering reporting officer
MOF	Minister of Finance
MOU	memorandum of understanding
NAMLC	National Anti-Money Laundering Committee
POCA	Proceeds of Crime Act 1997
PCMLR	Proceeds of Crime (Money Laundering) Regulations 1998
NCCT	non-cooperative countries and territories
ROSC	Report on Observance of Standards and Codes
SAR	suspicious activity report
SFT	Suppression of the Financing of Terrorism
SRO	self-regulatory organization
SR	special recommendation
TSB	trust service business

## EXECUTIVE SUMMARY

**Bermuda is the third largest reinsurance center after London and New York, and the second largest captive insurance domicile after the U.S.** Appropriate oversight of its financial system therefore has significant cross-border benefits. Bermuda's financial sector supervision was first assessed by the IMF in 2003 (see <http://www.imf.org/external/np/ofca/ofca.asp>). Since that assessment, the Bermudian authorities have made impressive progress in developing and implementing a risk-focused approach to supervision across the range of their sectoral supervisory responsibilities. At the time of the assessment missions, recommendations of the 2003 assessment had been taken into account or implemented in all areas but anti-money laundering and combating the financing of terrorism (AML/CFT). Supervision of the insurance industry, especially of the large commercial companies, has been significantly strengthened.

**Insurance supervision for the commercial insurers and reinsurers has a high level of observance of the IAIS Core Principles.** The decision to restructure the supervisory system on the basis of a risk-based framework enhanced the system beyond the 2003 recommendations that aimed at improving the previous largely self-supervised system. The current Bermudian insurance regulatory system is, in contrast, based on hands-on risk-sensitive supervision. Insurers are ranked by risk likelihood and impact, with riskier categorizations attracting increased supervisory attention. The risk-based framework is largely established, its implementation is in train and in place for Class 4 companies, the most systemically important market segment. See section III.C for the description of insurance company classes.

**Full rollout of the risk-based regulatory system to all market segments is, however, required for achievement of comprehensive oversight** of the market. Effective, comprehensive implementation of the risk-based regulatory system requires continuous review of regulatory resources, preservation of regulatory independence, high levels of disclosure, and the granular risk-rating and supervision of the companies in the Class 3 group.

**Banking supervision has progressed both organizationally and in supervisory practices.** To support the introduction of a formal risk-based supervisory system, the banking department has been restructured. Supervisory programs are tailored to entities with the highest risk scores identified through standardized analysis. The regulatory framework has also been substantially improved.

**Both insurance and banking supervisors are monitoring firms affected by sub prime exposures.** Unsurprisingly, some insurance companies have been adversely impacted. However, the authorities have taken a proactive stance in assessing both the risks and the companies' risk management. Such exposure is not anticipated to be a systemic threat.

**Securities regulation has been updated in line with the 2003 recommendations.** In particular, a new Investment Funds Act (IFA), that provides additional rules for collective