BMA
BERMUDA MONETARY AUTHORITY

5th December, 2014

Dear Stakeholders:

Re: Insurance Code of Conduct (revised) 2014

The Bermuda Monetary Authority ("the Authority or BMA") would like to thank stakeholders for their continued support in furthering the development of the Bermuda insurance regulatory framework. The Authority appreciates the feedback received and is committed to working closely with its stakeholders to ensure that the regulatory regime is effective and is aligned with international standards.

On 29th August 2014 the Authority published for consultation, the revised Code of Conduct on which the Authority received comments from eight stakeholders which we summarise below along with our responses:

- Six of the eight responding stakeholders indicated some concern regarding the requirement for an independent Internal Audit function. Some expressed the difficulty that they believed they would have in trying to comply due to the small size of their organisations while one stakeholder expressed concern regarding the requirement for separate staffing again due to the small size of their company. Additionally one stakeholder asked for clarity on what the term "Segregated" meant and noted that the definition of Internal Audit was different from that used elsewhere by the Authority.

  Regarding the internal audit function the Authority suggest that insurers come into the BMA and discuss their particular situation since the application of the Code will be based on nature, scale and complexity. The Authority cannot make blanket statements on how it will modify an application since it will depend on the insurer's specific structure.

  Additionally, the Authority has removed the requirement for independent staffing of the audit function so that there is no longer a need for staff solely dedicated to internal audit. It should be noted that a company must be able to demonstrate the independence of the internal audit function.

The definition of Internal Audit has been amended to be consistent with its use in the Group Rules 2011 as suggested.

- One stakeholder expressed concern that while the existing Code was clearly group conscious as evidenced by the allowance of non-executive directors from the parent board the revised code was not as clear on this issue.

  The Authority accepts this comment and will revert to the clearer group conscious wording in the original Code.

- The Authority received a comment requesting more guidance on proportionality and in particular guidance on its application to the internal audit function.

  The Authority has provided general guidance on the proportionality principle which is contained in Section 3 of the Code. The application of the proportionality principle would be based on the insurer's specific circumstances including its risk profile, scale and complexity. Accordingly any insurer that has any concerns regarding a specific component of the Code, including internal audit, is encouraged to come in and speak directly with the Authority.

- One stakeholder questioned the role of the compliance function regarding internal controls and suggested that there should also be a role for the internal audit function in reviewing internal controls. They also suggested that it should be possible for both functions to work jointly on projects.

  The Authority agrees that both functions should be able to work jointly on projects and notes that there is a role for Internal Audit to play regarding internal controls. In particular bullet 5 under internal audit states that:
  The insurer's internal audit function should "examine operational practices to ensure the adequacy and effectiveness of governance, risk management, policies, procedures and controls."

The Authority wishes to reiterate that it has given due consideration to all recommendations submitted by stakeholders. The Authority would like to thank stakeholders for their comments, and suggested recommendations and edits to the revised code and remains committed to working with the industry and other interested parties to ensure that results achieved are in the best interests of the Bermuda market.

Yours sincerely,

The Bermuda Monetary Authority