12th June 2012

NOTICE

Insurance Group Supervision Statement of Principles

The Insurance Group Supervision Statement of Principles ("SoP") issued in June 2012 sets forth how the Bermuda Monetary Authority ("Authority") will act in exercising its power and discretion as group supervisor.

The SoP sets forth the criteria for determining whether the Authority will assume the role of group supervisor, and, where it has assumed such a role, how it will identify the scope of the group to be subject to group supervision.

The SoP explains the Authority's power to obtain information and reports and to require the production of documents in order to facilitate monitoring of group financial condition, solvency and risks, which will involve reliance in the majority of cases on voluntary reporting by groups. With respect to capital adequacy, the SoP outlines how the Authority can make adjustments to a group's enhanced capital requirement ("ECR") and/or available statutory capital and surplus when it determines that (i) the group's risk profile deviates significantly from the assumptions underlying the ECR, or the group's assessment of its risk management policies and practices in calculating the ECR or (ii) the group's system of internal governance deviates significantly from the standards applicable to it, that those deviations prevent it from engaging in appropriate risk management, and that the deficiencies in risk management are unlikely to be rectified sufficiently in an appropriate timeframe.

Finally, the SoP outlines the power of the Authoriity to issue directions to a designated insurer if necessary or desirable to safeguard the interests of policyholders or potential policyholders of the group or to address breaches by the group of the Act or the group rules.

INSURANCE GROUP SUPERVISION

STATEMENT OF PRINCIPLES

June 2012

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1. INTRODUCTION

1.1 Under the Insurance Act 1978, as amended (the "Act"), the Bermuda Monetary Authority (the "Authority") is charged with the duty to supervise persons carrying on an insurance business with the goal of protecting policyholders. The Authority also has an important interest in promoting the financial stability of Bermuda through the effective supervision of persons carrying on an insurance business.

1.2 Under the amendments to the Act that became effective on 29th March 2010, Part IVA, Group Supervision was added to the Act. As Group Supervisor, the Authority has the the discretion to determine whether to be a Group Supervisor and the power to obtain from a group information or reports or to require the production of documents, the power to adjust a group's enhanced capital requirement ("ECR") and available statutory capital and surplus, and the power to issue directions to a Designated Insurer[1] of a group.

1.3 This Statement of Principles sets forth how the Authority will act in exercising its power and discretion in these areas of group supervision. The Statement of Principles is made in accordance with section 2A of the Act, which requires the Authority to publish in such manner it sees fit a statement of principles in accordance with which the Authority will exercise the powers and discretion of Group Supervisor. With respect to Part 6 of this Statement of Principles relating to the power of the Authority as Group Supervisor to issue a direction to a Designated Insurer, in the case of conflict between this Statement of Principles and the Statement of Principles on the Use of Enforcement Powers, the latter shall prevail.

1.4 While the Authority aims to provide clarity as to its approach, this Statement of Principles cannot be exhaustive and cover every circumstance in which the Authority would exercise its power or discretion.

2. OVERVIEW OF THE BERMUDA FRAMEWORK FOR GROUP SUPERVISION

2.1 A significant number of Bermuda registered insurers[2] currently operate within a group structure. The financial position and risk profile of an insurer may be affected by its belonging to a group, with the possibility of both positive and negative effects on its prudential position.[3] Thus, the Authority has developed a framework for group supervision. This framework reflects international developments in the supervision of insurance groups, including principles adopted

[1] See Section 2.5 of this Statement of Principles. In addition, a separate Guidance Note details the role and responsibilities of the Designated Insurer.
[2] In this Statement of Principles, the term "insurer" is used synonymously with the term "reinsurer" and the term "insurance" includes "reinsurance."
[3] See IAIS Principles on Group Supervision, October 2008, www.iais.org.

by the International Association of Insurance Supervisors (the "IAIS") and other standard-setting bodies. It is, however, adapted to fit the nature, scale and complexity of the Bermuda insurance market and to reflect the predominantly wholesale nature of Bermuda insurers' lines of business.

2.2 The legislation underpinning the Bermuda framework for group supervision is contained in Part IVA of the Act. Under Part IVA of the Act, the Authority may determine whether it is appropriate for it to be the Group Supervisor of an insurance group. Section 27B of the Act sets forth the factors to be considered in making such a determination. Sections 27C and 27CA of the Act give the Authority the power to include or exclude from the scope of group supervision a member of a group.

2.3 Under Part IVA of the Act, the Authority may exercise its power to obtain information and reports and to require the production of documents. Section 27E(a), (b) and (d) of the Act provides that the Authority's functions with respect to group supervision include, *inter alia*, the supervisory review and assessment of the financial situation and system of governance of insurance groups, and the coordination of the gathering and dissemination of relevant or essential information for going concern and emergency situations.

2.4 Under Part IVA of the Act, the Authority's functions as Group Supervisor include the assessment of compliance of insurance groups with the rules on solvency. Under Section 27F of the Act, the Authority is empowered to make rules prescribing prudential standards in relation to: (i) ECR; (ii) capital and solvency returns; (iii) insurance reserves; and (iv) eligible capital.

Under Section 6D of the Act, the Authority may exercise its power to make adjustments to an insurer's or an insurance group's ECR and available statutory capital and surplus.

2.5 Section 27E(f) of the Act provides that the Authority's functions as Group Supervisor include the coordination of any enforcement action that may be taken against insurance groups or their members. Enforcement action with respect to breaches of the Act or the Insurance (Group Supervision) Rules 2011 and the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (collectively, the "Group Rules")) generally is effected through the issuance of a direction to the insurer designated pursuant to Section 27B(5) of the Act (the Designated Insurer).

3. DETERMINATION OF THE AUTHORITY AS GROUP SUPERVISOR

Authority as Group Supervisor

In determining whether to assume the role of Group Supervisor, the most important criterion is the Authority's ability to effectively supervise the group.

Assessment of the Authority's ability to effectively supervise the group involves an evaluation of the ability of the Designated Insurer to influence group decision making such that compliance with the Act and the Rules can be assured.

3.1 Under Section 27B of the Act the Authority must take into consideration the following factors when determining whether the Authority should be Group Supervisor:

a. Whether the group is headed by a specified insurer.

b. Where the group is not headed by a specified insurer, whether the insurance group is headed by a parent incorporated in Bermuda;

c. Where the group is headed by a parent not incorporated in Bermuda, the Authority must be satisfied that:

i. the insurance group is directed and managed from Bermuda, and

ii. the insurer in the insurance group with the largest balance sheet is a registered insurer.

3.2 As part of the process of making a determination as to whether to act as Group Supervisor the Authority will also take into consideration the views of other potential Group Supervisors.

3.3 In assessing the factors set forth in paragraph 3.1, the Authority will consider the materiality of business lines, products and markets in relation to insurers in other jurisdictions in which the group operates. The Authority will consider whether Bermuda is the jurisdiction in which the group control function and the direction and management of the group reside. The determination of whether the Authority should be the Group Supervisor necessarily involves both quantitative and qualitative factors and the weight to be assigned various factors necessarily depends on the facts and circumstances of each case and the nature and composition of the group.

3.4 Ultimately, the Authority must evaluate the ability of the Designated Insurer of the group to facilitate and maintain compliance by the group with the Act and the Group Rules and to serve in an "early warning" role which allows the Authority to administer its group supervision and oversight in an effective and timely manner. This evaluation will take into consideration, *inter alia*, the manner in which members of the group are regulated and supervised in other jurisdictions and the structure of the group, including whether the structure of the group contributes to a lack of transparency that could hinder the Authority's ability to act as Group Supervisor.

3.5 Where the Authority has determined that it will assume the responsibility of Group Supervisor, it will advise the insurance group and the legal entity supervisors. The Authority designates a specified insurer that is a member of the insurance group to be the Designated Insurer in respect of that insurance group for the purposes of the Act. The Authority shall give notice in writing of such designation to the Designated Insurer and take into account any written representations made to the Authority by the Designated Insurer within such period as may be specified in the notice.

Scope of Group Supervision

Where the Authority has determined that it will assume the responsibility of Group Supervisor, it will, in cooperation with other involved supervisors as necessary, identify the scope of the group to be subject to group supervision so as to facilitate comprehensive and non-duplicative regulatory oversight among jurisdictions. The Authority may make a determination that certain members of the group should fall outside of the scope of group supervision pursuant to Section 27C of the Act. It may also make a determination pursuant to Section 27CA of the Act to add members to the scope of the group.

3.6 When the Authority acts as Group Supervisor for an insurance group, the scope of its supervision generally includes the ultimate insurance parent, its direct subsidiaries, and lower-tier subsidiaries where control or significant influence exists. Lower-tier subsidiaries include, without limitation, subsidiaries, participations, affiliates, holdings and guaranteed or off-balance sheet entities.

3.7 In determining the scope the Authority will consider the relevance of each entity as a member of the group based on its operation within the group. As part of this process the Authority along with other supervisors will assess a legal entity's significance in its particular market. The Authority will also consider the manner in which the group is managed and conducts its business as well as the group structure.

3.8 The Authority may determine that it is supervisor for a Bermuda group that is headed by an intermediate holding company or the Designated Insurer that is a subsidiary or affiliate of the ultimate insurance parent or a larger insurance group. This generally will be the case where the Authority is not the Group Supervisor of the larger group and the Bermuda operations give rise to material risks or exposures and either: (i) the non-Bermuda Group Supervisor is not recognised by the Authority as an equivalent and competent authority, or (ii) the non-Bermuda Group Supervisor is unable to fulfill effectively its functions in the absence of a Bermuda group or has asked the Authority to establish a Bermuda group. The Authority may also establish a Bermuda group where the larger group is a conglomerate with material non-insurance operations.

3.9 Under Section 27C of the Act, the Authority of its own initiative or upon considering an application made by the Designated Insurer may exclude certain group members from the scope of group supervision where the Authority is satisfied of the following:

a. the entity is in a jurisdiction where there are legal impediments to cooperation or information exchange;

b. the financial operations of the entity have a negligible impact on the insurance group's operations; or

c. the inclusion of the entity would be inappropriate in relation to the objectives of group supervision.

The exclusion of a member from the group may arise under circumstances in which there has been a material change or the entity is not as relevant to the group's operation.

3.10 Under Section 27CA of the Act, the Authority of its own initiative or upon considering an application by the Designated Insurer may add members to the scope of group supervision where it is satisfied that:

a. the financial operations of the entity may have a material impact on the group's operations such that inclusion in the group is warranted; and

b. the inclusion of the entity would be appropriate having regard for the objectives of group supervision.

The inclusion of a member into the group may arise under circumstances in which the entity becomes more relevant to the group's operation or there has been a material change. In such cases the Authority would consider its ability to supervise the group effectively.

4. POWER OF THE AUTHORITY AS GROUP SUPERVISOR TO OBTAIN INFORMATION AND REPORTS AND REQUIRE THE PRODUCTION OF DOCUMENTS

The Authority will require groups to provide adequate and appropriate regulatory information and reports and may require the production of documents in order to facilitate monitoring of group financial condition, solvency, and risks.

4.1 The Act and the Group Rules require certain mandatory filings by insurance groups. In addition, the Authority may require from a registered person or Designated Insurer other such information, reports and documents to assist in the exercise of its supervisory responsibilities.

4.2 In most cases, it is expected that this additional information will be provided in a timely manner on an entirely voluntary basis. However, when this is not the case, or where the Authority has concerns regarding the accuracy or completeness of the information, the Authority will exercise its authority under Section 29A of the Act to compel the provision of information or reports or the production of documents by the issuance of a notice to the Designated Insurer.

4.3 Under Section 29B of the Act, the Authority also has the power to commission reports from a professional person (e.g., an auditor or actuary) with respect to a group. Typically, this will be done only where the Authority has material concerns about the accuracy or completeness of the information provided by the group. As far as possible, the Authority will liaise closely with the group through the Designated Insurer and agree the scope of any report deemed necessary. As well under Section 29B, the Authority may obtain information about a group from various entities including a parent, subsidiary or related company of the Designated Insurer, or a subsidiary or parent company of the Designated Insurer.

5. POWER OF THE AUTHORITY AS GROUP SUPERVISOR TO MAKE ADJUSTMENTS TO CAPITAL

The Authority will assess a group's capital adequacy on a group basis, taking into consideration its nature, scope, complexity and risk profile.

5.1 Under Section 6D of the Act, the Authority has the power to make such adjustments to an insurer's or an insurance group's ECR and available statutory capital and surplus as it considers appropriate and such adjustments may be an increase or decrease of the group's capital. Such adjustments may require an increase in the amount of insurance reserves. The Authority may make adjustments to a group's ECR and available statutory capital and surplus when it determines that the risk profile of the group deviates significantly from (i) the assumptions underlying the ECR; or (ii) the group's assessment of its risk management policies and practices in calculating the ECR. Moreover, the Authority may make adjustments to a group's ECR and available statutory capital and surplus when it concludes that the system of governance of the insurance group deviates significantly from the standards applicable to it, that those deviations prevent it from being able to properly identify, measure, monitor, manage and report the risks that it is or could be exposed to, and that the application of other measures is in itself unlikely to improve the deficiencies sufficiently within an appropriate timeframe.

5.2 Before making an adjustment to a group's capital requirement, the Authority will issue a notice to the Designated Insurer and legal entity supervisors and consider any representations made by such parties. Any adjustment made by the Authority shall not have effect until a period of not less than 90 days has elapsed from the date of notification.

6. POWER OF THE AUTHORITY AS GROUP SUPERVISOR TO ISSUE DIRECTIONS TO A DESIGNATED INSURER

If it appears to the Authority that a Designated Insurer is in breach of any provision of the Act or the Group Rules, under section 32A of the Act, the Authority has the power to give to the Designated Insurer such directions as appear to the Authority to be desirable for safeguarding the interests of policyholders and potential policyholders of the insurance group. Moreover, where obligations are imposed on the group, or in the event of breaches by the group of the Act or the Group Rules, or otherwise to safeguard the interests of policyholders or potential policyholders of the group, the Authority may issue a direction to the Designated Insurer as a means to compel the group to perform the obligations or to remediate the breach.

6.1 The Authority will consider the issuance of directions to the Designated Insurer and the nature and scope of any such directions in light of the nature and extent of the matter and the impact or potential impact on policyholders or potential policyholders of the group.

6.2 Where the matter pertains to a legal entity subject to another jurisdiction's regulatory provisions and, in particular, where the breach involves a failure to meet the group's ECR or minimum margin of solvency, the Authority will confer with the relevant legal entity supervisor(s) to ensure that a collaborative approach is taken to appropriately address the issue and to develop and execute a remediation plan within a reasonable timeframe.

6.3 It is expected that the Authority will address the large majority of compliance issues through supervisory dialogue among the Authority, the relevant legal entity supervisor(s) and the Designated Insurer.

6.4 Before making a decision to issue a direction the Authority would utilise the following process except in cases where immediate action is deemed necessary to address material risks to the group or policyholders or where the breach or non-compliance is egregious or wilful:

a. First, the Authority discusses the breach with the senior management and, as necessary or appropriate the board of directors, of the Designated Insurer and the relevant legal entity supervisor(s);

b. The Authority works with the Designated Insurer and the relevant legal entity supervisor(s) to develop a remedial plan specific to the breach and sets forth a schedule to achieve by a target date remediation of the breach and affirmative actions, including the implementation of internal controls, to prevent future breaches; and

c. If remediation of the breach has not occurred by the target date and insufficient mitigating circumstances are present, the Authority may take formal action through the issuance of a direction under section 32A to the Designated Insurer to address the prudential concerns. The factors considered in determining whether to issue a direction to the Designated Insurer include:

i. the interests of policyholders and the group;

ii. the views of the relevant legal entity supervisor(s);

iii. the nature and extent of the issue;

iv. the loss, risk of loss or other adverse impacts on the group or policyholders;

v. the extent to which additional or continued remedial actions would resolve the breach without enforcement action;

vi. the group's willingness to cooperate and the level of resources it dedicates to resolving the issue;

vii. the compliance history of the group and any past breaches or pattern of unfit or improper behaviour;

viii. whether the issue arose from deliberate, reckless and/or deceptive behaviour;

ix. whether the issue involves financial misconduct or fraud or could have caused the group to be used to facilitate financial crime; and

x. whether the issue reveals systemic weaknesses in the management or internal controls of the group.

6.5 Before taking a final decision in respect of a direction, the Authority generally would issue a written notice to the Designated Insurer stating the proposed action, the reasons therefor and the Authority's intention with respect to publication of the direction. The notice would provide the Designated Insurer with an opportunity to make representations with respect to the actions to be taken. Notwithstanding the foregoing, prior notice and an opportunity to make representations may not be given if the Authority deems that immediate action is necessary or appropriate to address material risks to the group or policyholders or where the breach or non-compliance is egregious or wilful. In all cases, the Authority would coordinate with the relevant legal entity supervisor(s) in connection with the issuance of the notice.

6.6 If after considering the representations of the Designated Insurer, the Authority concludes that a direction should be issued, the Authority would issue a written decision notice stating the action to be taken, the reasons therefor and the

Authority's decision with respect to publication of the direction. The decision notice would advise the Designated Insurer of any rights to appeal with respect to the decision to issue a direction.

6.7 As Group Supervisor, the Authority's primary objective is to work with the Designated Insurer to facilitate and maintain compliance with the Act and the Group Rules. The Authority does not intend to imply that the Designated Insurer will be the guarantor of a group's compliance with the Act or the Group Rules. Where the Authority feels that the Designated Insurer is limited in its ability or capacity to effect appropriate remedial changes, the Authority may consider withdrawing as Group Supervisor.