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Dear (Re) Insurers:

RE: CONSULTATION PAPER ON THE INSURANCE CODE OF CONDUCT (“CODE”)

The Bermuda Monetary Authority (“the Authority”) wishes to thank the stakeholders for their continued support in relation to our key initiatives. Recently, the Authority published a Consultation Paper on the Insurance Code of Conduct and a number of comments were received.

The Code will be implemented on July 1st 2010. The Authority is committed to working closely with insurers to assist in achieving compliance with the Code by December 31st 2010.

The Authority’s responses to the comments that were received are outlined below.

Parent’s Board

Clarity was requested about the number of non-executive directors on the Parent’s Board.

The Authority agreed that further clarity was required on this issue and the reference in the paragraph 15 of the Consultation Paper to “the board” was amended to specify the appropriate number of non-executive directors which may form part of the “**parent's board.**”

Oversight Responsibility for the Board

Comments were expressed over the prescriptive nature of the list of oversight responsibilities of the Board.

The Authority acknowledged this concern and agreed to reword the first few words of the responsibilities in order to provide a broader context.

Board's Annual Review and Approval of Significant Policies and Procedures

Concern was raised about the Board reviewing and approving significant policies and procedures annually.

It was determined that the “review and approval” requirements should remain as this is consistent with international standards and is specifically in-line with requirements established by Solvency II¹ and the International Association of Insurance Supervisors (“IAIS”)². A critical part of the board’s oversight responsibilities is the review and approval of significant policies and procedures. The Authority did remove the words “at least annually” (removed from both paragraph 16 and 27 of the Consultation Paper) as it was resolved that this was sufficiently communicated in paragraph 45.

Further to this point, one of the responses included a proposal to have the board only review significant changes to policies and procedures rather than the annual review of such documents. The Authority is of the view that significant policies and procedures (not just the changes) should be reviewed annually. This approach is consistent with international best practice and ensures that there is interconnectivity between policies and procedures and recommendations identified by the risk management and internal control systems.

Market Discipline and Disclosure

The Authority was asked to provide written confirmation that Section 7 of the Code is only applicable to Domestic Insurers writing retail business.

The Authority, by way of this response letter, is giving its written confirmation that Section 7 only applies to Domestic Insurers writing retail business.

Risk Management Framework

Concern was raised about (Re) Insurers having to “measure” all material risk.

The Authority agreed with this comment and amended the second bullet point (paragraph 28 of the Consultation Paper) by removing the word “measure” and replacing it with the word “assess”.

Risk Appetite and Management of Exposures

Concern was expressed that (Re) Insurers should decide for themselves how to best articulate their risk appetite and manage exposures.

The Authority agrees with this comment that the second bullet points in both paragraph 30 and paragraph 36 of the Consultation Paper were both reworded to speak generally about 1) the appropriate management of exposures and 2) policies on concentration and allocation limits.

¹ **Committee of European Insurance and Occupational Pension Supervisors (“CEIOPS”):** Final Advice Level 2 Implementing Measures on Solvency II: System of Governance, Paragraph 3.21-3.25, pg.13-14, October 2009.

² **IAIS:** Insurance Core Principles (“ICP”) 9-Corporate Governance: Essential Criteria (b) pg.20 October 2003.

Operational Risk

Concern was expressed about the relaxation of operational risk requirements which are already covered in the capital charges.

While the Authority acknowledges the concern that certain operational risk requirements could potentially be relaxed on account that they are covered in the capital charge. The Authority does not view the operational risk charge as a measurement of operational risk and a substitute for sound operational management, rather that charge was introduced as an incentive to encourage insurers to adopt good corporate governance and risk management practices in this area.

Capture and Track Systems

Concern was raised over the issue of having to capture and track operations and near miss data.

While the Authority acknowledges concern with respect to the Code's requirement that operations and near miss data be captured and tracked, it was determined that this requirement as per the second bullet point (paragraph 38 of the Consultation Paper) should remain. As it is consistent with international standards and is specifically in-line with requirements established by Solvency II and the International Association of Insurance Supervisors ("IAIS")³.

Strategic Risk Management

Concern was expressed that the requirements under the strategic risk management was overly prescriptive.

The Authority agreed to reword paragraph 40 of the Consultation Paper to speak generally about measuring, monitoring, mitigating, and responding to exposures.

The Authority again thanks stakeholders for their comments on the Consultation Paper and reiterates its commitment to working with the industry and other stakeholders to ensure a result in the best interest of the Bermuda market, taking into account the costs to the industry.

Please feel free to contact us if you have any questions and if required, the Authority is committed to providing assistance to the market in order to achieve compliance with the Code. We look forward to continuing working with our stakeholders to ensure mutually beneficial outcomes are achieved.

Yours sincerely,

Bermuda Monetary Authority

³ **Committee of European Insurance and Occupational Pension Supervisors ("CEIOPS")**: Final Advice Level 2 Implementing Measures on Solvency II: System of Governance, Paragraph 3.160 and 3.168, pg.35-36, October 2009.