

9 June 2026



Dear Stakeholders,

Re: Consultation Paper - Proposed Instructions and Guidance on the Application of the Prudent Person Principle

In December 2024, the Bermuda Monetary Authority (Authority or BMA) issued the Consultation Paper (CP) *Proposed Instructions and Guidance on the Application of the Prudent Person Principle*. The CP is applicable to Bermuda's regulated commercial insurers¹ and insurance groups for which the BMA is the Group Supervisor. Through the proposed enhancements to the Insurance Code of Conduct (Code) and Insurance (Group Supervision) Rules 2011 (Group Rules), the BMA primarily sought to:

- i. Clarify the Authority's expectations with respect to the application of the Prudent Person Principle (PPP), particularly given the increase in non-publicly traded, illiquid, less transparent, structured, alternative or non-traditional assets, off-balance sheet exposures, and related party-originated assets, among other forms of bespoke and complex assets; and
- ii. Emphasise and remind insurers of the responsibilities resting with the board, senior management and control function holders regarding implementing the PPP.

The BMA wishes to thank industry stakeholders for their engagement with this consultation exercise. The Authority remains committed to working with stakeholders as we continue to enhance the insurance regulatory framework. The objective is to remain aligned with international standards, protect policyholders, consider the industry's impact on financial stability and safeguard Bermuda's reputation.

The BMA's Response to Stakeholder Feedback

The general feedback indicated the need to apply the proposals in a proportionate manner with regard to firm-specific circumstances and to allow for transition arrangements or an extended implementation date.

The Authority has carefully reviewed the feedback received and considered the proposals put forward by all stakeholders. The BMA recognises the importance of these matters to industry stakeholders and remains committed to ongoing engagement.

The following section summarises the feedback received and sets out the BMA's responses.

I. Proportionality

Respondents requested that the concept and applicability of proportionality be more prominently articulated throughout the proposed Instructions and Guidance.

The BMA's Response

The proposals seek to further articulate the Authority's expectations with respect to adherence to the PPP, as set out in the Code and Group Rules. The proposals note that compliance with PPP shall continue to be considered on a case-by-case basis, notwithstanding the provisions in the Group Rules, the Code, and the Instructions and Guidance. The Code explicitly sets out the Proportionality Principle under which the Authority will assess

¹ Classes 3A, 3B, 4, C, D and E.

compliance with the Code. This Principle has been reaffirmed in the updated Guidance Note.

II. Applicability Across Both the Long-Term and Property and Casualty Sectors

Respondents indicated that a number of the proposals appear to relate more directly to the long-term sector and suggested that consideration be given to adopting a bifurcated regime for the property and casualty sector.

The BMA's Response:

The PPP is already an integral part of the Code and the Group Rules, which do not distinguish between industry sectors. The Authority therefore considers that, while certain elements of the proposals may be more applicable to the long-term sector, no separate bifurcation is warranted. The BMA's assessment of compliance will be based on proportionality and applicability.

III. Group Structures

Respondents noted that, for group structures, appropriate governance and oversight can be achieved through activities at the group level. They suggested the Authority acknowledge that entity board-level governance is not necessarily the most appropriate organisational level for governing and overseeing a range of risks, including investment risk.

The BMA's Response:

The Authority acknowledges that entities operating within a group structure may benefit from appropriate governance and oversight through the group. However, where there are centralised group policies or functions which the legal entity utilises, the legal entity board must ensure these give appropriate regard to the insurer's business and its specific requirements. The legal entity board should be able to demonstrate that appropriate control and oversight of the governance process remain with them and that the process is effective.

IV. Investing in Structures or Instruments Where the Risk Exposure is Dependent on the Performance of Underlying Assets

Respondents noted that investment risks should be considered at a portfolio or fund level, not at the level of each individual underlying security or asset.

The BMA's Response:

The Authority acknowledges that investment risks should be considered at a portfolio or fund level. However, in order to perform a meaningful portfolio-level risk assessment, it is necessary to understand the risks and risk factors to which individual or underlying assets are exposed. The application of the 'look-through' approach is consistent with the Authority's requirements, as more fully set out in the applicable Insurance (Prudential Standards).

V. Reliance on Generally Accepted Accounting Principles (GAAP)

Respondents sought clarification regarding the ability to rely on GAAP as an independent external valuation and as a demonstration of compliance with PPP.

The BMA's Response:

The Authority acknowledges that GAAP valuation procedures can provide a source of external review of asset (or liability) valuations. However, the insurer's management – and ultimately the board – remains responsible for the appropriate valuations of assets and for ensuring that adequate valuation procedures and independent external valuation review processes are in place, taking into account the nature of the assets

(or liabilities). This includes where an insurer has made a determination – based on its up-to-date assessment of given assets (or liabilities) and the associated valuation risk, and as documented as part of the insurer’s overall risk management/valuation policies – that GAAP valuation procedures provide adequate independent review for the valuations of the assets in question.

The Authority has determined that reliance on GAAP alone would not appropriately demonstrate compliance with the PPP. The PPP, as set out in the Code and Group Rules, goes beyond the scope of GAAP. Therefore, insurers will be required to demonstrate they have considered all PPP elements based on proportionality and applicability.

VI. Implementation and Transitional Arrangements

Respondents emphasised the need to be afforded adequate time to assess applicable policies and procedures and demonstrate they have developed plans to address any deficiencies.

The BMA's Response:

The Authority agrees that adequate time should be provided to make transition arrangements. As such, the Authority proposes that the Code will come into effect upon issuance, and in-scope insurers are required to be compliant with the amendments by 31 December 2026.

Next Steps

The BMA has considered all feedback received and has, where appropriate, made amendments to the proposals in response.

The Authority would like to thank stakeholders for their feedback.

Sincerely,

The Bermuda Monetary Authority