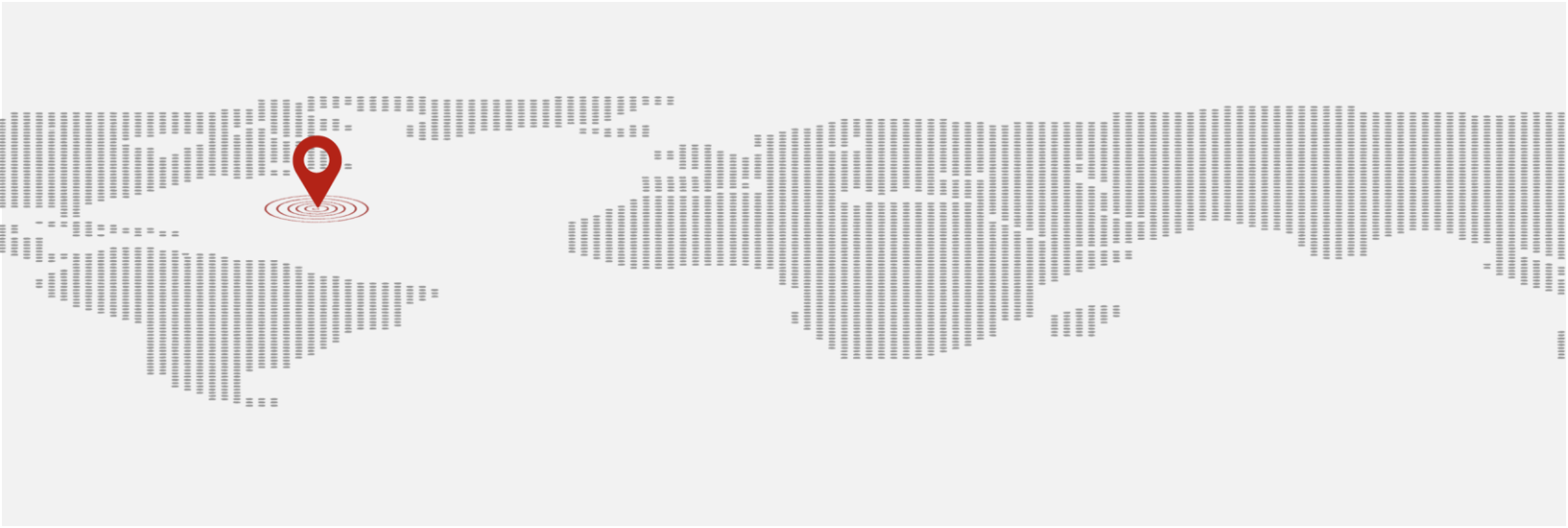
BERMUDA MONETARY AUTHORITY

09 June 2026

CONSULTATION PAPER

Proposed Amendments to Insurance Code of Conduct, Insurance (Group Supervision) Rules 2011 and Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011

Comments to be received by Monday, 27 July 2026



Contents

Introduction

1. This Consultation Paper (CP) outlines proposed amendments to the Insurance Code of Conduct (Code) as well as the Insurance (Group Supervision) Rules 2011 (Group Rules) and Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules (Group Solvency Rules).

2. The proposed amendments relate to the Bermuda Monetary Authority's (Authority or BMA) expectations for insurers when adopting the Prudent Person Principle (PPP), the enhancements to the Insurance Group Supervision Framework and the expansion in the scope of the Conduct of Business (COB) regulatory framework.

3. The proposed amendments are set out in the sections below:

    - Section 1 – Prudent Person Principle
    - Section 2 – Enhancement to the Insurance Group Supervision Framework
    - Section 3 – Conduct of Business Regime Scope Expansion

Section 1 – Prudent Person Principle

1. The Authority issued a CP on Proposed Instructions and Guidance on the Application of the Prudent Person Principle on 4 December 2024.

2. The Authority wishes to thank stakeholders for their feedback. The Authority's responses to the substantive comments received from stakeholders are contained in the Stakeholder Letter – Proposed Instructions and Guidance on the Application of the Prudent Person Principle (Guidance on PPP).

3. The December 2024 CP indicated that there would be consequential amendments to the Code and the Group Rules as a result of the proposals. The proposed amendments are now set out in the Code and Group Rules as follows:

Insurance Code of Conduct

4. The proposed amendments to the Code are shown in tracked changes to the following sections in the Code:

    1. 5.1.2 Investment, Liquidity and Concentration Risk
        a. Paragraph(s) 45, 47 and 49
    2. 5.1.4 Credit Risk
        a. Paragraph 51
    3. 6.6 Self-Assessment
        a. Paragraph 76
    4. 7. Outsourcing

a. Paragraph 78

5. The proposed changes to the Code should be read in conjunction with the Guidance on PPP.

6. The Authority invites feedback on (i) the proposed amendments to the Code and (ii) whether any further clarification to the Guidance on PPP is needed as a result of the proposed amendments to the Code.

7. The Code is proposed to come into effect upon issuance. In-scope insurers[1] are required to be compliant with the amendments by 31 December 2026.

Group Rules

8. The consequential amendments to the Group Rules relating to PPP are contained in the Insurance (Group Supervision) Amendment Rules 2026 – Illustrative Draft.

    1. Amends rule 5
    2. Amends rule 12
    3. Amends rule 13
    4. Amends rule 15

9. The Authority invites feedback on the proposed amendments to the Group Rules.

10. The Authority has determined that the amendments will come into effect upon issuance and compliance by insurance groups[2] is expected by 31 December 2026. The Authority has considered section 27F(4) and section 6A(6) of the Insurance Act 1978 in making this determination and considers that alignment with the proposed effective and compliance requirements under the Code is in the best interest of policyholders.

Section 2 - Enhancements to the Insurance Group Supervision Framework

1. The Authority issued a CP on *Proposed Enhancements to the Insurance Group Supervision Framework* on 4 December 2024.

2. The Authority subsequently issued a Stakeholder Letter – *Consultation Paper – Proposed Enhancements to the Insurance Group Supervision Framework* on 6 May 2025 addressing feedback from the 4 December 2024 CP. The Authority advised that there would be consequential amendments to the Group Rules and the Group Solvency Rules. Stakeholders would be aware that the Authority also made amendments to the Insurance Act 1978 late 2025 (Insurance Amendment (NO.2) Act 2025). The Insurance Act amendments had an operative effective date of 7 January 2026.

[1] Classes 3A, 3B, 4, C, D and E. In this document, the term 'insures' includes 'reinsurers'.
[2] 'Insurance groups' are groups for which the BMA is the group supervisor.

3. The consequential amendments to the Group Rules relating to the Enhancements to the Insurance Group Supervision Framework are contained in the Insurance (Group Supervision) Amendment Rules 2026 – Illustrative Draft.

    5. Amends rule 2
    6. Amends rule 18
    7. Amends rule 21
    8. Inserts rule 33

4. The proposed consequential amendments to the Group Solvency Rules are now contained in the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2026 – Illustrative Draft.

5. The Authority invites feedback on the proposed amendments to the Group Rules and Group Solvency Rules.

6. The proposed amendments to the Group Rules and Group Solvency Rules, in relation to the enhancements to the Group Supervision framework, will come into operation 180 days from the publication of the Draft Group Rules and Group Solvency Rules.

Section 3 – Conduct of Business Framework Scope Expansion

1. The BMA is committed to enhancing its regulatory regime to ensure it remains appropriate for the financial sectors it regulates and supervises. To this end, one of the Authority's key strategic initiatives is to establish a COB regulatory framework that aims to provide appropriate protection for customers of regulated financial institutions.

    The Authority has adopted a phased implementation approach to enhance the COB provisions within its insurance regulatory framework. In the first phase of implementation, the Authority issued a Consultation Paper with proposed changes to the Insurance Code of Conduct (Code) in September 2021[3] to embed COB provisions within the Code, which were applicable only to insurers who write domestic retail business (Under the Insurance Act 1978, *'retail business' is "the business of selling insurance products that are designed for and bought by an individual.")* These changes came into effect on 1 September 2022, with specified domestic insurers having six months to become compliant with the amended COB provisions in Part 8 of the Code.

2. The Authority is now proposing to expand the scope of the COB framework to include all insurers[4] who write retail business directly to individuals, wherever located. For the avoidance

[3] 2022-04-11-14-08-38-Consultation-Paper---Appendix-I---Insurance-Code-of-Conduct.pdf (bma.bm)

[4] Per the Insurance Act 1978, 'insurer' means a person carrying on insurance business. 'Insurance business' means the business of effecting and carrying out contracts – protecting persons against loss or liability to loss in respect of risks to which such persons may be exposed; or to pay a sum of money or render money's worth upon the happening of an event and includes re-insurance business.

of doubt, 'insurers' in this context refers to only Bermuda registrants, not foreign affiliates of Bermuda registrants or insurance groups.

3. The Code's expansion is expected to limit the risks to individual policyholders located internationally and provide the same level of protection to them as pertains to domestic retail policyholders, and be aligned with international standards.

4. *Scope* – The Authority proposes to include all insurers who directly write retail business to individual policyholders, regardless of whether those policyholders are located in Bermuda or overseas, within the COB framework. Direct premiums written are insurance premiums received by insurers for coverage provided to policyholders before considering reinsurance ceded. Direct premiums written are distinct from assumed premiums, which refer to revenue received for policy coverage provided under a reinsurance agreement. Accordingly, the proposed expansion in the scope of the Authority's COB framework aims to cover insurance contracts that insurers sell directly to individual policyholders, irrespective of whether those policyholders are located in Bermuda or overseas, without any other insurance company being part of the sales process. However, intermediaries[5] (e.g., insurance agents, insurance brokers or any other intermediaries) may be engaged to facilitate the sales process. Insurers will be expected to monitor the actions of such intermediaries in accordance with the Code.

5. To implement this expanded scope, the Authority proposes to amend Section 8 of the Code as follows:

    1. 8.1 The header at the end of Section 8.1, which is amended by deleting the word "domestic"
    2. 8.2.1 Fair treatment of policyholders
        a. Paragraph 87
    3. 8.2.10. Intermediaries
        a. Paragraph 109
    4. 8.2.11 Dealing with authorised intermediaries to ensure fair treatment of policyholders

6. *Proportionality* – In assessing the existence of sound and prudent business conduct, the Authority will have regard for the proportionate application of the Code's provisions to an insurer. The Authority will consider the insurer's nature, scale and complexity, allowing flexibility in how the insurer's unique business profile is represented and assessed. This includes recognising that individual policyholders have varying levels of sophistication. The Authority will proportionately assess adherence to the Code as part of its ongoing on-site inspections and off-site supervision of insurers.

7. The Authority invites feedback on the implementation of the COB scope expansion and the proposed amendments to Section 8 of the Code.

[5] See sections 8.2.10 and 8.2.11 of the Insurance Code of Conduct.

8. The proposed amendments to Section 8 of the Code will come into effect upon final issuance. In-scope insurers will have 180 days from the final publication date of the Code to become compliant with the Code amendments.

Conclusion and Next Steps

1. The BMA remains committed to fostering collaboration with stakeholders. Following the end of the consultation period, the BMA will review the feedback received and, where it deems appropriate, incorporate it before publishing the final Code, Group Rules and Group Solvency Rules.

2. Industry and other stakeholders are invited to provide feedback on the proposals outlined herein to riskanalytics@bma.bm no later than the close of business on 27 July 2026.

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BERMUDA MONETARY AUTHORITY

THE INSURANCE CODE OF CONDUCT

JUNE 2026
(Revised)

TABLE OF CONTENTS

1. INTRODUCTION

1. This document outlines the Bermuda Monetary Authority's (Authority or BMA) Insurance Code of Conduct (Code). In this Code, the term 'insurer' includes 'reinsurer', 'insurance' includes 'reinsurance', and 'policyholder' or 'policyholders' include current and past policyholders, third-party claimants and beneficiaries to whom the insurer is contractually obligated to fulfil its insurance obligations.

2. Limited purpose insurers shall include Class 1, Class 2, Class 3, Class Innovative Insurer General Business (IIGB), Special Purpose Insurer, Collateralized Insurer, Class A and Class B.

2. LEGISLATIVE AUTHORITY

3. The Authority is issuing the Code pursuant to the powers under Section 2BA of the Insurance Act 1978 (Act). The Code establishes duties, requirements, and standards to be complied with by insurers registered under Section 4 of the Act, including the procedures and sound principles to be observed by such persons. Failure to comply with provisions set out in the Code will be a factor the Authority considers in determining whether an insurer is meeting its obligation to conduct its business soundly and prudently.

3. PROPORTIONALITY PRINCIPLE

4. The Authority appreciates that insurers have varying risk profiles arising from their business' nature, scale and complexity and that those insurers with higher risk profiles would require more comprehensive governance and risk management frameworks compared with those of a lower risk profile to conduct business soundly and prudently.

5. Accordingly, the Authority will assess the insurer's adherence to the Code proportionately relative to its nature, scale and complexity. These elements will be considered collectively rather than individually (e.g., an insurer could be relatively small in scale but write extremely complex business and, therefore, be required to maintain a sophisticated risk management framework). In defining these elements:

a) 'Nature' includes the relationship between the policyholder and the insurer or characteristics of the business written;
b) 'Scale' includes size aspects such as volume of the business written or size of the balance sheet in conjunction with materiality considerations (e.g., an assessment of the impact of insurer's failure); and
c) 'Complexity' includes items such as organisational structures and ease of information transmission, multifaceted business or business lines, and skill level required to assess the risks of contractual provisions properly (e.g., the existence of options in business products).

6. In assessing the existence of sound and prudent business conduct, the Authority will regard both its prudential objectives and the appropriateness of the Code's provisions, taking into account the insurer's nature, scale and complexity.

7. The proportionality principle discussed above applies to all sections of the Code regardless of whether the principle is explicitly mentioned.

8. Limited purpose insurers, in particular, should be mindful of the proportionality principle in establishing a sound corporate governance, risk management and internal controls framework and complying with provisions of the Code, and should be guided by paragraph 6 in documenting their adherence to the Code.

4. CORPORATE GOVERNANCE

9. Every insurer must establish and maintain a sound corporate governance framework, which provides for appropriate oversight of the insurer's business and adequately recognises and protects the interests of policyholders. The framework should have regard for international best practices on effective corporate governance. Corporate governance includes principles of corporate discipline, accountability, responsibility, compliance and oversight.

10. The ultimate responsibility for sound and prudent governance and oversight of the insurer rests with its Board of Directors (Board). In this regard, the Board is responsible for ensuring corporate governance policies and practices are developed and applied in a prudent manner that promotes the Board's efficient, objective and independent judgment and decision-making.

11. The Board must also have adequate powers and resources to discharge its duties fully and effectively. Adequate resources, such as sufficient funding, staff and facilities, should be allocated to the Board to enable the board members to carry out their respective roles and responsibilities efficiently and effectively. In addition, the Board should have access to the services of external consultants or specialists where necessary or appropriate, subject to criteria (such as independence) and due procedures for appointment and dismissal of such consultants or specialists.

4.1. The Board

12. The Authority recognises that the Board plays a critical role in the successful operation of an insurer. The Board is chiefly responsible for setting corporate strategy, reviewing and monitoring managerial performance and determining an acceptable level of risk. Therefore, the effectiveness of the insurer's Board is a basic tenet of the Authority's risk-based supervisory approach. Pragmatically, the Board will likely delegate tasks; however, the delegation of authority to board committees, chief and senior executives, employees or external parties does not absolve the Board from its ultimate responsibilities.

13. The Board must ensure that the business is effectively directed and managed and conducted with integrity, due care, and appropriate professional skills. Therefore, it is the Board's responsibility to ensure that processes exist to assess and document the fitness and propriety of its members, controllers, and officers.

14. To effectively discharge its duties, the Board must have an appropriate number and mix of directors to ensure that it has requisite experience, knowledge, skills, and expertise commensurate with the insurer's business's nature, scale, and complexity.

15. The Board should include an appropriate number of independent non-executive directors[1], subject to the power of the Authority to review and require the addition of independent non-executive directors as it may deem appropriate. The Authority is of the view that independent non-executive directors play a valuable role in bringing external views, experience and perspective to an insurer by providing a challenge to the executive directors and other management in the running of the insurer's business.

16. The extent to which the Authority believes the directors of insurers need to be independent will be influenced by a number of factors, including the nature, size and complexity of the insurer's business, its business model and, if part of an insurance group, the degree of strategic and operational dependence between the insurer and the wider group. Other possible factors include the insurer's recovery and resolution plans and the need for the Board to have regard to the effect of its business decisions on existing, potential and future policyholders. The objective is to ensure that the governance of the insurer is effective and that its Board is capable of taking decisions in the interests of the safety and soundness of the insurer.

17. For an insurer that is a subsidiary of another Bermuda regulated insurer and/or Bermuda registered insurance group or that is a subsidiary of an entity which is not a Bermuda registered entity or group but is subject to prudential regulation[2] in a foreign country, the Board must have an appropriate number of non-executive directors[3]; however, these directors need not be independent. In determining the need for independent non-executive directors, the Authority will consider, among other factors, those detailed in paragraph 16 above. In this case, independent non-executive directors on the Board of the parent company or its other subsidiaries may also sit as independent non-executive directors on the Board of the insurer.

[1] For the purposes of the Code, an independent non-executive director is a director who is free from any business or other association including those arising out of a current beneficial ownership, existing or past involvement in management of the insurer or as a customer, supplier or adviser that could materially interfere with the exercise of their independent judgement in the best interests of the insurer and its policyholders.

[2] A prudentially regulated institution should be interpreted as an institution that is subject to the regulation and supervision of any applicable insurance regulatory authority.

[3] For the purpose of this Code, a reference to a non-executive director is a director who is not a member of the insurer's management. Non-executive directors may include Board members or chief and senior executives of the parent company of the insurer or of the parent company's subsidiaries, but not executives of the insurer or its subsidiaries.

18. For an insurer that is registered in Bermuda and is a subsidiary of a parent company that is not a Bermuda-registered entity and is not prudentially regulated, the Board must have independent non-executive directors. Independent non-executive directors on the Board of the parent company or its other subsidiaries may also sit as independent non-executive directors on the Board of the insurer.

19. Individual members of the Board must:

a) Act in good faith, honestly and reasonably;
b) Exercise due care and diligence;
c) Act in the best interests of the insurer and policyholders;
d) Exercise independent judgment and objectivity in their decision making; and
e) Ensure appropriate policies and procedures exist to deal with conflicts of interest effectively.

20. The Board should have a board renewal policy which must provide details of how the Board intends to renew itself in order to ensure it remains open to new ideas and independent thinking while retaining adequate expertise. The policy must give consideration to whether directors have served on the Board for a period that could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the insurer. The policy must include the process for appointing and removing directors, including the factors that will determine when an existing director will be re-appointed.

21. The board members should assess the Board's effectiveness no less frequently than every three years and upon a material change in the insurer's business activities or risk profile by:

a) Reviewing the board membership and its committees to ensure that the board members:
   i. Continue to be fit and proper; and
   ii. Ensure each of its committees, individually and collectively, have the requisite knowledge, skills, expertise, diversity, tenure and resources given the nature, scale and complexity of the insurer's operations.
b) Assessing the Board and how effectively the board members work together to achieve its objectives. Individual board member evaluation should demonstrate whether each director continues to contribute effectively.

22. The Board must establish and maintain, annually, policies and procedures that adequately address actual or potential conflicts of interest. The Board must also take into account the fact that conflicts or potential conflicts of interest may, on occasion, preclude the involvement of specific individual members on particular issues or decisions.

4.2. Oversight Responsibilities of the Board

23. As the insurer's governing body, a key Board responsibility is setting appropriate strategies and overseeing the implementation. This includes ensuring that chief and senior executives establish a transparent organisational structure and framework to implement the insurer's strategic business objectives.

24. The Board is also responsible for providing appropriate oversight of the insurer's governance, risk management and internal controls frameworks, including any activities and functions that are delegated or outsourced. A list of oversight responsibilities that the Board must consider when establishing and assessing the effectiveness of the corporate governance framework must include the existence of:

a) An operational framework, including risk management, internal audit and compliance, to ensure adequate oversight responsibilities so that sound corporate governance is effective;
b) Review and approval of significant policies and procedures, promoting effective corporate governance, including those for risk management and internal controls, internal audit, compliance and actuarial functions;
c) Adequate independence for the risk management, internal audit, actuarial and compliance functions to assist in oversight responsibilities and ensure these functions have a direct communication channel to the Board and relevant committees;
d) Processes to assess and document the fitness and propriety of board members, controllers, the chief and senior executives, and third-party service providers, including insurance managers, auditors, actuaries, investment custodians/managers and the principal representative;
e) Board committees (where applicable) to provide oversight and ensure fitness and propriety of both key operational areas, including underwriting, finance and investments and key functions including risk management, internal audit, actuarial and compliance;
f) Clear documentation and regular review of processes regarding the roles and responsibilities of the Board and its committees, the chief and senior executives, and other key employees delegated corporate governance responsibilities, including appropriate succession planning and segregation of the oversight function from management responsibilities;
g) Policies and procedures to ensure adequate Board oversight of the chief and senior executives, including processes for engagement and dismissal of chief and senior executives and third-party service providers;
h) Processes to ensure that key employees are adequately skilled to execute and discharge their duty and are compensated in a manner that encourages sound risk management and compliance;
i) Clearly defined charters, roles and responsibilities for the Board, committees, chief and senior executives, and other key employees;
j) Internal policies and procedures to address potential issues arising from the

business conduct and unethical or fraudulent actions by board members, chief and senior executives, and employees;

k) Business and operational strategies, plans, budgets and significant policies and procedures, including those surrounding oversight;
l) Processes to confirm that the Board has appropriate access to accurate, relevant and timely information to enable it to carry out its duties and functions, including the monitoring and reviewing of the insurer's performance and risk exposures and the performance of the board committees and the chief and senior executives;
m) Policies and procedures to ensure there is a reliable, timely and accurate financial reporting process for both internal and external reporting purposes that is supported by clearly defined roles and responsibilities of the Board, chief and senior executives, and external service providers (e.g., external auditors);
n) Review procedures and processes regarding compliance with all relevant laws, regulations, codes of conduct, industry standards and guidance notes;
o) Appropriate information systems to support the organisation's business platform, including producing reliable information to the relevant business functions;
p) Maintenance of sufficient records as required by laws and regulations;
q) Policies and procedures to oversee the external audit process and safeguard and promote an effective relationship with the external auditor;
r) Oversee policies and procedures that assist the insurer, where appropriate, in meeting the conduct of business obligations set out under this Code.
s) Management of the insurer's market conduct, including confirming that policies on independence, conflicts of interest and disclosures to external stakeholders are documented and reviewed;
t) Adoption of a risk culture that encourages behaviour and conduct that aligns its risk appetite, including the development of governance mechanisms for measuring and monitoring risk culture effectiveness, including but not limited to conducting risk culture assessments on a regular basis. The frequency of the assessments should be commensurate to the insurer's nature, scale and complexity;
u) Contingency plans, including those surrounding natural disasters, pandemic and information recovery, to ensure the insurer's continual operation;
v) Proper safeguard of organisational assets and sensitive information, including employee and policyholder information;
w) Adoption and oversight of the remuneration policy's effective implementation, which does not induce excessive or inappropriate risk-taking, is in line with the objectives, strategies, identified risk appetite and long-term interests of the insurer, and has proper regard to the interests of its stakeholders. Such a remuneration policy, at a minimum, should cover those individuals who are board members, the chief and senior executives, key persons in control functions and other employees whose actions may have a material impact on the insurer's risk exposure;
x) Systems and controls to ensure the promotion of appropriate, timely and effective communications with the Authority and relevant stakeholders on

the insurer's operations; and

y) Processes to adequately capture sustainability or Environmental, Social and Governance (ESG) considerations and the associated risks in the business plans and strategies and when establishing risk appetites.

25. Where an insurer is part of a regulated insurance group, and the group has centralised group policies or functions that the insurer utilises, the Board of the insurer must approve the use of group policies and functions and must ensure that these policies and functions give appropriate regard to the insurer's business and its specific requirements.

4.3. Responsibility of the Chief and Senior Executives

26. The Board must ensure that great care is taken in selecting the chief and senior executives, given the important role these play. In addition to supporting the Board, the chief and senior executives are also responsible for the prudent administration of the insurer. Such responsibilities include:

a) Manage and execute the insurer's day-to-day operations, subject to the mandate established by the Board and the laws and regulations in the operating jurisdiction;
b) Assist the Board to develop and implement an appropriate control environment, including those around reporting and security systems;
c) Provide recommendations on strategic plans, objectives, key policies and procedures to the Board for evaluation and authorisation;
d) Provide the Board with adequate and timely information to enable it to carry out its duties and functions, including the monitoring and review of the insurer's performance and risk exposures;
e) Maintain adequate and orderly records of the insurer;
f) Support oversight of both internal functions (e.g., risk management, internal audit, compliance, actuarial) and external third-party services;
g) Ensure that key functions assigned corporate governance responsibilities are supported with adequate resources to execute and discharge their duties, including independent functions having direct access to the board and relevant committees;
h) Ensure that external service providers, including the principal representative and insurance manager, have adequate resources and information to fulfil their role, including access to timely and accurate internal and outsourced records; and
i) Ensure the proper vetting of all staff.

Given the governance responsibilities, where requirements are imposed upon the insurer throughout the Code, the Authority will look to and expect the chief and senior executives, and ultimately the Board, to ensure adherence to the requirements of the Code.

4.4. Cooperation with Regulatory Authorities

27. The insurer, its Board and chief and senior executives are expected to deal openly and in a spirit of cooperation with the Authority and other relevant regulatory authorities.

28. The insurer should also ensure that any contracts or agreements it enters into do not intentionally or otherwise frustrate the Authority's ability to carry out its supervisory or regulatory obligations in relation to the insurer.

4.5. Insurance Managers

29. Where the insurer employs or appoints an insurance manager, the Board must ensure that the insurance manager's duties, responsibilities and authorities are clearly set out in a management or service agreement. For limited purpose insurers, the management agreement may outsource the chief and senior executives' responsibilities to the insurance manager, and the Board shall ensure that the insurance manager is fit and proper to execute these functions. The Board shall also ensure that the provisions relating to the chief and senior executives throughout the Code would be applicable to the insurance manager and that the corporate governance structure continues to remain appropriate to provide oversight of these outsourced functions.

30. The Board should assess the fitness and propriety of the insurance manager, including ensuring that the insurance manager has a strong risk management and internal controls framework and is sufficiently knowledgeable about jurisdictional laws and regulations to discharge its responsibilities appropriately. In addition, the Board should have appropriate reporting and controls in place to provide effective oversight of the insurance manager's function.

31. In determining whether it is appropriate for the insurance manager to take on a senior executive role, regard must be given to whether the insurance manager has the capacity and resources to be effective and ensure that the insurer operates prudently.

32. The management agreement should include terms obliging full cooperation with the Authority. This includes producing documents relating to the insurer upon request or assisting the Authority with its on-site assessment of the insurer's outsourced functions to the insurance manager.

33. The Authority expects insurers to obtain confirmation from the insurance manager that they are in compliance with the requirements of the Insurance Manager's Code of Conduct.

4.6. Principal Representative

34. The Act requires every insurer to appoint a principal representative who must be resident in Bermuda. The appointed principal representative must be

knowledgeable in insurance and Bermuda laws and regulations.

35. The role of the approved principal representative is integral to the Authority's insurance supervisory and regulatory framework. While the Board and the chief and senior executives have primary responsibility for the conduct and performance of the insurer, the approved principal representative acts in an "early warning" role and monitors the insurer's compliance with the Act on a continuous basis in accordance with Section 8A of the Act.

36. The approved principal representative would generally be a director or senior executive of the insurer who must be resident in Bermuda or a Bermuda registered insurance manager whose Bermuda office's chief and senior executives are sufficiently knowledgeable about the business of the insurer and have appropriate knowledge of relevant legislation, codes and guidance, to be able to act in the capacity of a principal representative. Under Section 8A of the Act, the approved principal representative has the duty to report certain events to the Authority.

37. The Board and chief and senior executives must make arrangements to enable the approved principal representative to undertake their duties pursuant to the Act on an efficient and effective basis, including providing access to relevant records.

5. RISK MANAGEMENT FRAMEWORK

38. The Board and the chief and senior executives should adopt an effective risk management and internal controls framework. The framework should have regard for international best practices on risk management and internal controls. This includes ensuring the fitness and propriety of individuals responsible for the management and oversight of the framework.

39. Minimally, the risk management framework should:

a) Be embedded in both the organisational structure and strategic oversight process, supported by appropriate controls, policies and procedures;
b) Be supported by systems that appropriately capture underwriting and reserving, asset-liability matching, investments, liquidity and concentration risk management, reinsurance and other risk mitigation techniques, and operational risk management and provide relevant, accurate and timely information to the Board, chief and senior executives, and applicable business functions;
c) Allow for the identification, assessment, monitoring and reporting continuously and both on an individual and aggregate level, all material risks (e.g., financial and non-financial, on and off-balance sheet items, current and contingent exposures). It should take into account the probability, potential impact and time horizons of risks;
d) Include regular reviews of the operating environment to ensure material risks are continuously assessed and monitored, and appropriate actions are taken

to manage exposures, identified issues and potential adverse developments;

e) Include a clearly defined and well-documented risk management strategy, which includes clearly defined objectives, risk appetite and tolerance levels, and appropriate delegation of oversight, reporting and operating responsibilities across all functions;
f) Include reporting systems that are appropriate for the insurer, taking into consideration any outsourcing of responsibilities and safeguarding of assets;
g) Include documentation of significant policies and procedures; and
h) Include the review and approval of the significant policies and procedures by the Board and the chief and senior executives on a risk basis (see section 5.2).

40. A risk management framework requires each insurer to:

a) Identify all material risks, including financial and non-financial, on and off-balance sheet items, and current, contingent and emerging exposures;
b) Assess the potential impact of all material risks, including material risks affecting capital requirements and capital management, short-term and long-term liquidity requirements, policyholder obligations, and operational strategies and objectives;
c) Include early warnings or triggers that allows timely consideration of and adequate response to material risks;
d) Develop policies and strategies to manage, mitigate and report all material risks effectively; and
e) Include a risk escalation process that would allow for reporting on risk issues within established reporting cycles and outside of them for matters of particular urgency.

41. Material risks to be addressed by the risk management framework include:

a) Insurance underwriting risk;
b) Investment, liquidity and concentration risk;
c) Market risk;
d) Credit risk;
e) Systems, cyber and operations risk (operational risk);
f) Group risk;
g) Strategic risk including emerging risk;
h) Systemic and reputational risk;
i) Legal/litigation risk; and
j) ESG risk.

Assessment of the materials risks should be reported to the Board and the chief and senior executives on a timely basis to monitor and ensure compliance with the established policies and strategies.

5.1. Material Risks

5.1.1. Insurance Underwriting Risk

42. The insurance underwriting risk component of the insurer's risk management framework should include:

a) Underwriting strategies that are aligned with the overall organisational strategy, including alignment to the appropriate investment strategy, risk appetite and risk tolerance levels;
b) Underwriting policies that are sufficiently detailed to allow appropriate management of insurance exposures;
c) Reserving techniques prescribed by jurisdictional laws and regulations and that adequately reflect the obligations to policyholders;
d) Management of policyholder claims, including those surrounding claims processing (reporting, validation of claims, timely settlement of payments, and capturing and storing claims data);
e) Methodologies to identify and evaluate risks arising from insurance policies and obligations, including the concentration of risks;
f) Measurement techniques to ensure compliance with risk appetite and tolerance levels and overall strategy;
g) Response techniques to ensure that unexpected exposures or deviations are mitigated, including those surrounding reserves, and that risk mitigation strategies are appropriately employed;
h) Systems to capture, maintain and analyse underwriting data and policies and procedures to ensure relevant and accurate data is used to price underwriting contracts, establish adequate reserves, appropriately settle claims, and establish strategies and objectives; and
i) The oversight of the Board and the chief and senior executives, including employing techniques such as benchmarking and stress and scenario testing to review, approve and assess strategies and tolerance limits.

43. Underwriting risks may be mitigated by way of reinsurance or other risk transfer techniques, which are appropriate to the nature, scale and complexity of the insurer's business. Risk mitigation techniques should be embedded into the insurer's underwriting and capital and liquidity management strategies. The insurer should develop processes and procedures to approve, evaluate and assess the effectiveness of the risk mitigation techniques employed in light of the insurer's risk appetite and tolerances, underwriting results and investment strategies. This includes identifying and monitoring potential material risks that may arise while executing the strategy. Controls of the risk mitigation techniques should be part of the insurer's risk management framework.

44. The insurer should demonstrate the economic impact of the risk mitigation techniques originating from the reinsurance contracts.

5.1.2. Investment, Liquidity and Concentration Risk

45. The investment risk component of the insurer's risk management framework should include:

a) Adopting the "prudent person" principle in relation to the management ~~investment~~ of its ~~assets~~investments;
b) Establishing strategies that align with the overall organisational strategy, especially those surrounding underwriting (including claims management) ~~,and~~ capital requirements and capital adequacy, and liquidity requirements;
c) Designing an investment policy, supporting established methods that:
   i. Govern the appropriate and effective ~~selection and composition~~ management of the investment portfolio, including detailed composition and allocation limits, to allow appropriate execution of the investment policy and strategies and future assessment of compliance, while considering the applicable risk factors of the asset classes within the investment portfolio;
      - The policy should consider valuation, liquidity, leverage, sourcing, concentrations, underwriting standards and selectivity, resource and expertise requirements, and conflicts of interest ~~;~~ all taking into account the context of the specific assets.
      - Where applicable, include processes tailored to the insurer's use of non-publicly traded, illiquid, less transparent, alternative or non-traditional assets, off-balance sheet exposures, and affiliated and related party-originated assets, among other bespoke and complex assets.
   ii. Govern the appropriate employment, valuation, ~~and~~ effectiveness and other risks of off-balance-~~-~~sheet hedging and derivative instruments;
   iii. Align with the insurer's overall risk tolerance limits and exposures;
   iv. Mitigate aggregations of exposure across the insurer's portfolio, having particular regard to concentrations of low ~~security~~ credit quality assets or those whose ~~security~~ credit quality is difficult to assess reliably;
   v. Govern the selection and compensation of service providers, including those providing custodian and investment management services;
   vi. Govern the reporting and data management of the investment portfolio; and
   vii. Govern the oversight responsibilities of the Board and its established committees, internal functions and third-party service providers;
d) Establishing techniques to analyse performance results and identify current contingent and emerging exposures arising from the execution of a planned strategy or market development;
e) Establishing techniques to regularly assess and monitor the adequacy of capital to support the current strategy and the effectiveness of the management of assets and liabilities, including asset-liability management, ~~including~~ the effectiveness of hedging strategies, the development of

contingent exposures and the impact of embedded options within asset classes and in long-term products (long-term insurers).

f) Establishing benchmarking and stress and scenario testing to assist in the identification and determination that its investment portfolio is well-diversified and not exposed to undue risk concentration and accumulation

g) Establishing processes to consider valuation uncertainty, including valuation lags, particularly with respect to non-publicly traded assets. These should include at a minimum:-

   i. The review of valuations
   ii. Measurement and monitoring the uncertainty in valuation
   iii. Management of potential conflicts of interest

h) Establishing processes to demonstrate that due diligence is being carried out with respect to asset ratings and ratings providers, including:-

   i. Own assessment of credit risk and own economic view of capital requirements
   ii. Potential ratings jump risk that could result from material updates to rating methodologies
   ~~i.~~iii. Assessment of adequacy and comparability of rating scales by different rating providers

46. The "prudent person" principle requires that an individual entrusted with the management of a client's funds may only invest in instruments that any reasonable individual with objectives of capital preservation and return on investment would own. In relation to the insurer, this principle requires that the insurer, in determining the appropriate investment strategy and policy, may only assume investment risks that it can properly identify, measure, respond to, monitor, control and report while taking into consideration its capital requirements and adequacy, short-term and long-term liquidity requirements, and policyholder obligations. Further, the insurer must ensure that investment decisions have been executed in the best interest of its policyholders.

47. The liquidity risk component of the insurer's risk management framework should include:

a) A clearly defined liquidity risk appetite that is owned and approved by the Board;

b) A liquidity risk management strategy and documented liquidity risk policy(ies) and processes consistent with the stated liquidity risk appetite;

—Adopting sound liquidity management practices covering short, medium and long-term objectives that support the overall organisational strategy, including investment, underwriting and risk mitigation techniques and claims strategies;

c) Adopting practices to manage ~~short-term~~ liquidity requirements, including access to sufficient funds to meet its day-to-day obligations, where such practices should also consider any applicable fungibility considerations;

d)

e) Adopting benchmarking and stress and scenario testing to assist in the identification and determination of liquidity requirements under normal and stressed conditions, including unexpected adverse developments across different time horizons ~~in the medium and long-term~~. The stress and scenario testing should minimally consider:

i. Forced selling of assets, including specific considerations of non-publicly traded assets

ii. Derivative margin calls

iii. Asset funding commitments

~~i.~~iv. Embedded optionality in long-term products; and

~~e)~~f) Quantitative metrics and tools for measuring liquidity risk drivers and serving as early warning indicators.

48. The concentration risk component of the insurer's risk management framework should include developing strategies and policies to identify, measure, respond to, monitor, mitigate and report credit risk arising from an individual risk exposure or from a combination of risk exposures such as credit, market, underwriting and liquidity.

~~48.~~49. The insurer should establish and implement policies, processes and procedures to identify and manage conflicts of interest in relation to the "prudent person" principle. Excessive reliance on disclosures without adequate consideration of how conflict may be appropriately prevented or managed is not permitted.

5.1.3. Market Risk

~~49.~~50. The market risk component of the insurer's risk management framework should include:

a) An investment strategy that is aligned with the insurer's overall short- term and long-term strategic objectives, including those surrounding the management of assets and liabilities;
b) Detailed policies on concentration and allocation limits, including counterparty, assets and sectors;
c) Identification and quantification techniques related to both on and off-balance sheet exposures, including materiality, level and trend;
d) Performance measurement techniques, including benchmarking and stress and scenario testing to ensure compliance with the investment strategy;
e) Monitoring procedures to assess the insurer's tolerance to changes in the market; and
f) Mitigation techniques to ensure appropriate management of adverse developments.

5.1.4. Credit Risk

~~50.~~51. The credit risk component of the insurer's risk management framework should include:

a) A credit risk policy that is aligned with the insurer's overall short-term and long-term strategic objectives;
b) Detailed exposure limits surrounding:
   i. Individual counterparty or concentration of counterparties;
   ii. Intra-group transactions;
   iii. Assets and/or sectors;
   iv. Off-balance sheet (e.g., asset funding commitments, guarantees and letters of credit); and
   v. Zones or territories;
c) Identification and quantification techniques related to both on and off-balance sheet exposures, including materiality, level and trend;
d) Mitigation tools employed to manage adverse developments; and
e) Measurement techniques to assess the risk exposures and effectiveness of the mitigation tools used, including stress and scenario testing.

5.1.5. Systems and Operations Risk (Operational risk)

~~51~~52. The systems and operations risk (operational risk) component of the risk management framework should include:

a) Defining the systems and operations risk and establishing risk appetite and tolerance limits for each material risk area, which may include business process risk, business continuity risk, compliance risk, information systems risk, distribution channels risk, fraud risk, human resources risk and outsourcing risk;
b) Establishing a system to identify systems and operations exposures and to capture and track systems and operations near-miss data;
c) Establishing a system of effective internal reporting and operating controls (including information technology infrastructure) to manage and appropriately mitigate the systems, cyber[4] and operations risk;
d) Establishing measurement techniques, such as stress and scenario testing, to assess the vulnerability of the insurer; and
e) Establishing frequent reviews to ensure mitigation strategies, such as an early warning system, have been effectively deployed and the systems and operations risk is within a tolerable limit.

5.1.6. Group Risk

~~52~~53. The group risk component of the insurer's risk management framework should include:

[4] Insurers must comply with the Insurance Sector Operational Cyber Risk Management Code of Conduct, which establishes duties, requirements, standards, procedures and principles to be complied with in relation to operational cyber risk management.

a) Identifying the group governance, structure and interrelationships, including ownership and management structure;
b) Identifying and measuring material intra-group transactions and exposures, including intra-group guarantees, contagion and concentration risks; and
c) Evaluating and executing strategies to mitigate group risk and ensure that the insurer operates within its tolerance levels, as established by the Board and the chief and senior executives.

5.1.7. Strategic Risk (Including Emerging Risks)

~~53.~~54. The strategic risk component of the insurer's risk management framework should include:

a) Developing processes and procedures to ensure the execution of the insurer's overall organisational strategy; and
b) Developing techniques to measure, monitor, mitigate and respond to exposures and risks arising while implementing strategies.

~~54.~~55. The insurer should pay particular attention to the resources that will be needed to accomplish the strategic objectives, including internal and external resources and tangible and intangible resources.

5.1.8. Systemic and Reputational Risk

~~55.~~56. The reputational risk component of the insurer's risk management framework should include:

a) Procedures to identify and monitor potential systemic and reputational risks; and
b) Methodologies to understand the impact of other material risks related to the insurer's reputation.

5.1.9. Legal/Litigation Risk

~~56.~~57. The insurer's risk management framework's legal/litigation risk component should include developing mitigation and monitoring techniques to ensure compliance with internal policies and procedures, laws and regulations; safeguarding of policyholder and organisational assets; market discipline; and financial or public reporting. This includes:

a) Ensuring that the management of and access to records meet requirements established by laws and regulations;
b) Complying with internationally recognised contract certainty standards and codes; and

c) Maintaining appropriate documentation of all transactions such as documentation on investments, underwriting (including reinsurance and other risk mitigation techniques), claims management transactions and agreements (e.g., custodian, investment management, letters of credit, debt agreements).

5.1.10. Environmental, Social and Governance Risk

~~57~~58. The ESG risk component of the insurer's risk management framework should include a consideration of the material risks from ESG aspects in the development of policies and risk management strategies.

~~58~~59. The ESG risk component for climate risk, particularly, should include:

a) Processes to integrate climate-related risks into the scope of the risk management system. Insurers should ensure that a definition of risk appetite, identification and assessment is in place. Effective risk management and monitoring, risk escalation and reporting measures should be in place.
b) Consideration, in the risk management system, of the potential impact on its own business continuity due to climate-related events.
c) The insurer should consider and document how climate-related risks could materialise within each area in the risk management policies. Insurers should develop tools to collect reliable quantitative and qualitative data on climate-related risks;
d) Consideration of climate-related risks by control functions. The control functions should identify, measure and report on the insurer's risks, assess the effectiveness of the insurer's risk management and internal controls, and determine whether the insurer's operations, results and climate risk exposures are consistent with the risk appetite as approved by the Board; and
e) Control functions that take proper consideration of climate-related risks and have the appropriate resources and expertise to support the following:
    i. The risk management function should monitor and provide necessary assistance to the business units to ensure proper identification, assessment and management of climate-related risks and that relevant policies are in place;
    ii. The risk management function should use a range of quantitative and qualitative methods and metrics to monitor progress on climate-related risks against the insurer's overall business strategy and risk appetite;
    iii. The compliance function should identify the compliance risks the insurer can face and the steps being taken to address them in light of climate change. This function should also ensure that internal policies align with stated ESG commitments or external standards and regulations;

iv. The actuarial function should take into account climate-related risks; and

v. In line with its risk assessments, the internal audit function should review the risk management process and controls to ensure they are adequate and effective and whether all material risks have been assessed. As part of the review, it should assess whether all material risks, including climate risk that may have an impact on the insurer's resilience, are being considered and, where relevant, mitigated.

5.2. Policies and Procedures

~~59.~~60. The insurer should clearly document significant policies and procedures for all its functions, including risk management and internal controls frameworks. In addition, the operating and oversight responsibilities should be clearly defined. The reporting of material deficiencies and fraud activities should be transparent, devoid of conflicts of interest, with proper attention being given to these reports and that persons making these reports are treated fairly and equitably.

~~60.~~61. The chief and senior executives should review significant policies and procedures at least annually to ensure that they continue to support the overall operational strategy. Where appropriate, an insurer may take a risk-based approach to its review spanning over several annual periods.

~~61.~~62. The design and effectiveness of the risk management and internal controls framework should be regularly assessed and reported to the Board and the chief and senior executives to ensure amendments are incorporated as appropriate. Internal controls should facilitate effective and efficient operations and should address the organisational structure, in particular:

a) Duties and responsibilities;
b) Decision-making authority and procedures;
c) Any outsourcing;
d) Segregation of duties; and
e) Internal monitoring and reporting.

~~62.~~63. Further, the insurer should establish sound accounting and financial reporting procedures and practices. The accounting and supporting records should provide a timely, complete and accurate representation of the insurer's financial position.

5.3. Business Continuity and Disaster Recovery

~~63.~~64. The insurer must document a business continuity and disaster recovery plan that addresses all of its key business processes and critical business functions. The effectiveness of the plan should be tested regularly. These documents must be

available for the Authority's inspection as part of its supervisory process.

6. GOVERNANCE MECHANISM

~~64.~~65. Conducting business prudently should also include the insurer establishing sound governance mechanisms. These should be embedded in the corporate governance framework, and its effectiveness must be assessed frequently. Functions assisting the Board with its oversight responsibilities may be internally developed or outsourced to third-party service providers, as appropriate, given the insurer's risk profile.

6.1. Risk Management Function

~~65.~~66. The insurer must establish a function to assist it with the oversight responsibility of the organisation's risk management framework. Depending on its risk profile, the function may be headed by a chief risk officer or the responsibilities assigned to or shared amongst the insurer's operational unit leaders. Regardless, there should be a mechanism to allow direct reporting to the Board or its established committees and ensure independence necessary to be effective.

~~66.~~67. The risk management function should include:

a) Clearly defined and documented roles and responsibilities that are reviewed and approved by the Board on a frequent basis;
b) A sound and effective risk management framework, including developing (with the support of operational unit leaders) policies, procedures and internal controls promoting the identification, assessment, monitoring and reporting of material risks in a timely manner;
c) Establishing key policies (e.g., risk policy, cybersecurity policy, policies required under Bermuda's anti-money laundering/anti-terrorist financing legislation) and assessing effectiveness and compliance with established benchmarks, such as risk appetite, risk tolerance limits and strategies;
d) Employing measurement techniques such as benchmarking or stress and scenario testing; and
e) Reviewing regularly the risk management techniques employed in light of changing operational, regulatory and market developments to ensure continued effectiveness and adoption of the applicable best practices.

~~67.~~68. Risk management, risk identification, risk assessment, risk monitoring and risk reporting are critical for an effective risk management framework. As such, the insurer must implement these in an effective manner for the benefit of the insurer's policyholders and stakeholders and to support its business objectives.

6.2. Internal Controls

~~68.~~69. The Board and the chief and senior executives should review and assess the effectiveness of the internal reporting and operating controls. Any material deficiencies should be documented, and resolution measures should be implemented in a timely manner. The Board and the chief and senior executives should ensure that policies and procedures requiring direct reporting of internal control weaknesses to them are developed.

6.3. Internal Audit Function

~~69.~~70. Insurers must implement the "three lines of defence" with the first line being risk-taking and the second being risk-control and compliance. The third critical line is the internal audit. The insurer must have an internal audit function. The insurer's internal audit function should:

a) Be segregated and staffed by persons independent of operational functions, including risk management, compliance, underwriting, actuarial, claims, operations and finance;
b) Have clearly defined and documented charters, roles and responsibilities that are reviewed and approved by the Board regularly and that demonstrate the independence and separation of the function;
c) Document material policies and procedures to be reviewed and approved by the Board (see section 5.2);
d) Prepare an internal audit plan to ensure assessment of governance and controls of key risk areas at an appropriate interval, taking into consideration the insurer's nature, scale and complexity. The internal audit plan should be reviewed at least annually and approved by the Board or the audit committee of the Board;
e) Have unrestricted access to all areas of the organisation, including access to any records held by third-party service providers;
f) Examine operational practices to ensure the adequacy and effectiveness of governance, risk management, policies, procedures and controls;
g) Report governance and control deficiencies directly to the Board or a committee appointed by the Board;
h) Establish a robust mechanism to monitor deficiencies until remediation efforts are completed and report remedial progress to the Board at regular intervals taking into consideration the level of risks involved;
i) Have appropriate authority within the organisation to ensure management addresses any internal audit findings and recommendations with respect to the adequacy and effectiveness of governance, risk management, policies, procedures and controls;
j) Have sufficient resources and fit and proper staff to carry out duties and responsibilities;
k) Have sufficient knowledge and experience to employ methodologies designed to assist the insurer in identifying key risks; and
l) Assist the Board in identifying areas for improvement.

6.4. Compliance Function

~~70.~~71. Regulatory and other requirements (such as internal policies and procedures) are imposed to protect the insurer itself, its policyholders and stakeholders more widely. Therefore, the establishment of a function focused on how well the insurer adheres to the various requirements in which it is legally bound is very important. The insurer must establish an effective compliance function to monitor and evaluate its compliance with jurisdictional laws and regulations and related internal policies and procedures. The compliance function should also promote and sustain a corporate culture of compliance and integrity.

~~71.~~72. The compliance function should have:

a) Policies, procedures and processes documenting the compliance with the risk management framework, legal and ethical conduct, applicable laws, rules and standards;
b) System of compliance monitoring, testing and reporting, including a plan to address any deficiencies or non-compliance that may be identified;
c) Sufficient resources and fit and proper staff to carry out duties and responsibilities; and
d) Training programmes for staff on compliance issues and a mechanism for staff to report concerns regarding compliance deficiencies and breaches confidentially.

6.5. Actuarial Function

~~72.~~73. The insurer must establish an effective actuarial function based on the nature, scale, complexity and profile of risks to which the insurer is exposed. The function may be outsourced to third-party service providers; however, it may be performed by the approved loss reserve specialist (general business insurers) or approved actuary (long-term insurers) in addition to their respective responsibilities to the Authority.

~~73.~~74. Activities of the actuarial function include:

a) Performing or overseeing the estimation of policyholder obligations, including assessing the adequacy of methodologies and assumptions and the quality of underlying data;
b) Assisting in the execution of the risk management framework, particularly as it relates to modelling techniques used to estimate loss reserves, policyholder obligations, potential exposures and capital requirements;
c) Assisting with the underwriting process, including those surrounding pricing and writing of underwriting contracts and risk transfer mechanisms (e.g., ceding reinsurance, derivative instruments, catastrophe bonds);
d) Performing analysis comparing the estimated policyholder obligations

against actual policyholder obligations paid; and

e) Reporting to the Board and the chief and senior executives on the dependability and sufficiency of the estimates.

~~74.~~75. The insurer should ensure the fitness and propriety of the individuals performing the actuarial function. This includes retaining individuals with the appropriate qualification in actuarial science or mathematics and knowledge and experience in the industry.

6.6. Self-Assessment

~~75.~~76. The insurer must have a comprehensive and integrated, forward-looking view of all material reasonably foreseeable risks that arise from its business model and interaction with the wider environment. This allows a more informed assessment of the appropriateness of its business strategy and enhances its ability to position itself for future success and sustainability. Therefore, the insurer must develop policies, processes, and procedures to assess all its material reasonably foreseeable risks over its planning horizon and self-determine its capital (both quality and quantity), liquidity and resourcing needs to inform its business strategy. The self-assessment must be performed at least annually and reported to the Authority as part of the year-end filing requirements. The insurer should be guided by the proportionality principle in establishing the self-assessment framework. Minimally, the assessment should:

a) Be an integral part of the group's risk management framework, forward-looking, reflect the insurer's risk tolerance and overall business strategy, link the risk tolerance to exposure limits and set forth the process through which breaches of exposure limits are addressed;
b) Be clearly documented, reviewed and evaluated regularly by the Board and the chief and senior executives to ensure continual advancement in light of changes in the strategic direction and market developments;
c) Cover both all material reasonably foreseeable and emerging risks and a forward-looking time horizon deemed appropriate by the Board, having regard for the dynamics of the insurance business industry and wider relevant influences; ~~and~~
d) Ensure an appropriate oversight process whereby material deficiencies are reported on a timely basis and suitable actions are taken; ~~.~~
e) Ensure appropriate consideration of the relevant paragraphs in this Code; and
f) Include evidence and attest to the application of the Prudent Person Principle.

~~76.~~77. The insurer must ensure the fitness and propriety of key individuals overseeing and performing the assessment; this includes third-party service providers, if applicable, assisting with the assessment process.

7. OUTSOURCING

~~77.~~ While the insurer may outsource certain important roles (including, but not limited to, asset management, asset origination, custodial services, cybersecurity, compliance and

78. internal audit) to third parties or affiliates, such action does not remove the responsibility from the insurer to ensure that all requirements of the Act and related legislation are complied with, and this Code adhered to as if these roles were performed in-house.

~~79.~~

~~80.~~79. Where the insurer outsources roles either externally to third parties or internally to other affiliated entities, the Board must ensure that there is oversight and clear accountability for all material outsourced roles as if these functions were performed internally and subject to the insurer's own standards on governance and internal controls. The Board should also ensure that the service agreement includes terms on compliance with jurisdictional laws and regulations. Agreements should not prohibit cooperation with the Authority and the Authority's access to data and records in a timely manner.

~~81.~~80. Where the Board has outsourced a role and/or is considering a role, the Board must assess the impact or potential impact on the insurer. The Board must not outsource a role that is reasonably expected to adversely affect the insurer's ability to operate prudently. These considerations include where outsourcing is reasonably expected to:

a) Adversely affect the insurer's governance and risk management structures;
b) Unduly increase operational risk;
c) Affect the Authority's ability to effectively supervise and regulate the insurer; and
d) Adversely affect the policyholder's interests.

~~82.~~81. The Authority expects to see clear evidence of a risk evaluation process having been undertaken by the insurer before entering into a material outsourcing arrangement, clearly articulating the rationale as to why the outsourcing option was/is being pursued. This evaluation will need to set out the benefits of the outsourcing and how any risks arising from it are to be mitigated/managed.

~~83.~~82. An insurer considering a material outsourcing arrangement should undertake due diligence on the service provider under consideration. This due diligence should include, but not be limited to, evaluating that the service provider:

a) Has the quantity and quality of staff with the requisite skills and experience to effectively deliver the outsourced activities, as well as having any authorisations required by law to perform the outsourced activity reliably

and professionally throughout the life of the outsourcing;

b) Has the relevant technology, cyber security, operational infrastructure and financial capacity to undertake the outsourcing arrangement effectively and efficiently;
c) Has appropriate information and data security to protect any and all confidential information relating to the insurer and its clients;
d) Has an appropriate risk management framework and controls to ensure that the carrying out of the outsourced activity is properly supervised and any risks associated with the outsourcing are effectively managed;
e) Has appropriate business continuity plans and can demonstrate to the insurer a successful track record of these plans and their testing;
f) Will provide access to all documents and data relating to the outsourced activity to the insurer, its auditors and its competent authority, as well as access to the business premises of the outsourcing service provider.

Contingency plan(s) should be considered in the event the service provider is unable to provide the outsourced activity for any reason.

~~84.~~83. The Authority expects the insurers to be able to demonstrate that it is monitoring all its material outsourcing arrangements through the use of management information, calls, meetings and visits to the service provider. The level of monitoring for each outsourcing activity should be proportionate to the risks to the insurer from that outsourcing arrangement.

8. CONDUCT OF BUSINESS

8.1 An insurer shall conduct its business with integrity

8.1.1. Integrity

~~85.~~84. An insurer shall always conduct its business with integrity. It shall exercise its duties prudently and competently, and it should administer each client's affairs in accordance with the law. It shall deal honestly, professionally and fairly with all clients and seek to ensure that they are not misled as to the services being provided and the duties and obligations of the service provider.

8.1.2. Conflicts of interest

~~86.~~85. The insurer shall have clearly documented and established policies and procedures to manage or avoid situations in which a conflict of interest arises between the insurer's business and that of its clients. Similarly, it should not enter transactions in which it has a material interest without first disclosing its interest to the relevant parties. Where conflicts of interest arise, the insurer shall always keep adequate records of such conflicts and act to ensure it does not place its own interests above those of its clients. All reasonable steps to manage

conflicts and to prevent damage to clients' interests shall be taken.

(The balance of this Code is applicable to insurers writing ~~domestic~~ retail business[5])

8.2. An insurer shall have due regard for the interests of its policyholders

8.2.1. Fair treatment of policyholders

~~87.~~86. The insurer shall ensure that its business is conducted in such a way as to treat its policyholders fairly. Fair treatment of policyholders should be an objective taken into consideration in the design of the business strategy, product design, product distribution and product performance.

~~88.~~87. Policies and procedures on the treatment of policyholders should be developed, with policies approved by the Board and procedures approved within appropriate governance structures. The policies should define acceptable and unacceptable behaviours and outline consequences for non-adherence. The policies and procedures should be communicated to all relevant staff and appropriate training should be provided to ensure adherence by personnel and any ~~authorised~~ sales representatives.

8.2.2. Skill, care and diligence

~~89.~~88. The insurer should always act with due care, skill and diligence in the conduct of its business and its dealings with policyholders.

~~90.~~89. Any information that a policyholder can reasonably expect to be kept confidential should be treated as such. Insurers should have controls in place, as well as policies and procedures for the protection and handling of confidential information on policyholders.

~~91.~~90. The insurer should transact its business (including the establishment, maintenance, transfer or closure of business relationships with its policyholders) in an expeditious manner.

8.2.3. Staff competence and performance management

~~92.~~91. All employees should be sufficiently qualified and experienced to discharge their duties properly.

~~93.~~92. The insurer should provide the necessary training to employees relative to their business function. Specifically, the insurer shall ensure that the relevant frontline staff are trained to provide guidance on products and services and to promptly and effectively deal with policyholder queries, complaints and disputes.

[5] 'Retail business' means the business of selling insurance products that are designed for and bought by an individual. (s~~30JA(2)~~1Insurance Act 1978)

8.2.4. Product governance

~~94.~~93. The policies implemented by insurers should address the fair treatment of policyholders throughout the product lifecycle and address how such is achieved for the duration of the provision of services. To this end, insurers should, inter alia, ensure such policies and procedures address the process for the development, review and approval of new products, activities, processes and systems, and material changes to existing products.

8.2.5. Suitability

~~95.~~94. Where the insurer is responsible for providing advice or exercising discretion for or in relation to policyholders, it shall seek from the policyholder such information about their circumstances and objectives as may be appropriate regarding the services to be provided. The insurer shall discuss various options with the policyholder to ascertain the optimal solution, given the policyholder's needs and circumstances. Likewise, when a new product is being developed, its suitability for policyholders should be determined, weighing both its benefits and any associated risks prior to it being made available.

~~96.~~95. The insurer shall assess the relevant features of products and services against the policyholder's information to determine the product's suitability before it is recommended or the policyholder invests in it.

~~97.~~96. The information provided should be sufficient to enable policyholders to understand the characteristics and any associated risks of the product they are buying and help them understand how it may meet their requirements to enable them to make an informed decision.

~~98.~~97. The insurer should retain sufficient documentation to demonstrate that the advice provided was appropriate, considering the policyholder's disclosed circumstances at the time the advice was provided.

8.2.6. Vulnerable policyholders

~~99.~~98. Insurers should take reasonable steps to identify vulnerable policyholders.

~~100.~~99. Broadly, a vulnerable policyholder is a natural person who:

a) Has the capacity to make their own decisions but who, because of individual circumstances, may require assistance to do so (e.g., seniors, hearing impaired or visually impaired persons); or
b) Has limited capacity to make their own decisions and who requires assistance to do so (e.g., minors).

~~101.~~100. The insurer shall take steps to provide appropriate facilities and access to information and services for the use of vulnerable policyholders, including consideration of the appropriateness of channels[6] used to communicate

[6] Appropriate communication channels may include publication on the insurer's website, in the local media, over the

information.

~~102.~~101. The insurer should establish and implement policies and procedures to accommodate and afford reasonable care to a policyholder who is identified as vulnerable or who discloses these needs to the insurer.

~~103.~~102. This requirement does not preclude the insurer's ability to evaluate the attributes of a prospective policyholder, such as age, medical condition, pregnancy, physical or mental disability in the process of evaluating insurable risks and determining premiums.

8.2.7. Cancelling a service or transferring service providers

~~104.~~103. The insurer should not unduly, except as required by law or as provided by the policy wording, limit the policyholder's ability to cancel or transfer a product or service to another provider on the policyholder's reasonable notice.

8.2.8. Sales practices

~~105.~~104. The insurer should establish and comply with sales policies and procedures which prohibit and prevent misbehaviour such as misselling, misrepresentations, aggressive sales tactics and discrimination during the sales process.

~~106.~~105. Sales representatives should understand the products that they are selling and the risks that the products may pose to policyholders. To the best of their ability, they should present products in a truthful manner.

8.2.9. Claims handling

~~107.~~106. The insurer should implement policies which require it to address claims in a timely, fair and transparent manner and avoid any aggressive and coercive claims handling tactics and discrimination during the claims handling process. Such processes should include, but are not limited to measures:

a) Setting out the avoidance of conflicts of interest and ongoing training of relevant staff;
b) Appropriate for the insurance business conducted; and
c) Having the level of technical and legal expertise required in relation to the insurance policy and the claim.

~~108.~~107. Claims handling policies and procedures should also include all steps in the grievance process (i.e., from the notification of the claim to its settlement). Such documentation may include expected timeframes for completing each step in the process and when such steps may be extended or shortened in exceptional cases. Claimants should be informed about procedures and common

telephone, through the insurer's sales agents, in writing delivered to the customer's address on file, or through the policyholder's relationship manager. This list is not exhaustive and appropriate channels should be used based on the type of product and policyholder in question.

timeframes for claims settlement. Throughout the course of the process, claimants should be informed of the status of their claims in a timely manner.

~~109.~~108. The insurer should explain to claimants determining factors (i.e., depreciations, discounting or negligence) in deciding to pay a claim, whether in whole, in part or not at all.

8.2.10. ~~Authorised I~~intermediaries

~~110.~~109. The insurer is ultimately responsible for the activities performed on its behalf by its appointed ~~required to take responsibility for the appointment and activities of authorised~~ intermediaries (e.g., insurance brokers, insurance agents, insurance managers, insurance salesmen, insurance marketplace providers). In relation to its ~~authorised~~ intermediaries (who are carrying on business in Bermuda and internationally), the insurer shall:

~~a) Ensure they are registered with the Authority;~~

~~b)~~a) ~~a)~~Ensure that they provide policyholders and prospective policyholders with the name of the insurer represented by the ~~authorised~~ intermediary and the types of product(s) on which the ~~authorised~~ intermediary is authorised to sell and provide advice on behalf of the insurer; and

b) ~~b)~~ Have a written contract in place with each intermediary setting out the products, services, commissions, premium payment and responsibilities of each party, particularly in relation to policyholder communication and dealings with the insurer.

c) ~~c)~~ Ensure that the terms of the business agreement have been completed and signed by the intermediary to require the intermediary to warrant that the agreement does not breach any legal obligations and that the intermediary will clearly explain the risks inherent in the product to policyholders or prospective policyholders; and

d) ~~d)~~ Take measures to monitor the performance of the intermediary, including the reporting and handling of complaints made against the intermediary with respect to advice or sales made by the intermediary on behalf of the insurer.

Additionally:

e) ~~e)~~ In relation to its intermediaries who are carrying on business in Bermuda, the insurer shall ensure that the intermediary is registered with the Authority.

~~**8.2.11. Dealing with authorised intermediaries to ensure fair treatment of policyholders**~~

~~111. Where the insurer grants terms of business to an authorised intermediary in respect of retail business, the insurer shall:~~

~~a) Ensure that the terms of the business agreement have been completed and signed by the authorised intermediary to require the authorised intermediary to warrant that the agreement does not breach any legal obligations and that the authorised intermediary will clearly explain the risks inherent in the product to policyholders or prospective policyholders; and~~

~~b) Take measures to monitor the performance of the authorised intermediary, including the reporting and handling of complaints made against the authorised intermediary with respect to advice or sales made by the authorised intermediary on behalf of the insurer.~~

8.3. Communication requirements with policyholders

8.3.1. An insurer should ensure that communications with policyholders are fair, clear and not misleading

~~112.~~110. The insurer shall supply the policyholder, or the potential policyholder, with adequate, up-to-date information and material for decision-making purposes.

~~113.~~111. As the insurer conducts business and fulfils its obligations to the policyholder, it shall consider the impact of their communication and interactions, or the lack thereof, on the policyholder.

~~114.~~112. The insurer shall not disguise, omit, diminish or obscure material information, statements or warnings. The insurer shall consider whether omission of any relevant fact will result in the information being insufficient, unclear, unfair or misleading.

~~115.~~113. The insurer should ensure that information is presented in a way that is likely to be understood by the policyholder. The insurer should consider the impact of content and presentation of information by:

a) Positioning material information in a location such that it is obvious and apparent;
b) Simplifying language where possible; and
c) Considering the accessibility of the communication channel.

~~116.~~114. The insurer should be able to demonstrate that information is supplied to policyholders with reasonable timeliness, in a comprehensible form and through the appropriate channel.

8.3.2. Advertisements

~~117.~~115. The insurer should promote products and services in a manner that is clear, fair and not misleading. The insurer should ensure that its advertisements:

a) Use clear and easy to understand language;
b) Do not contain a statement, promise or forecast that is untrue or misleading;
c) Are not designed in such a way as to distort or conceal any relevant subject material;
d) Are clearly recognisable as advertisements;
e) Do not contain a statement relating to taxation benefits unless it contains appropriate qualifications to show what it means in practice and to whom such benefits apply;
f) Include a statement of the related risks; and
g) Do not contain a statement relating to past performance unless:
   i. The basis on which such performance is measured is clearly stated and the presentation is fair;
   ii. It is accompanied by a warning that past performance is not necessarily a guide to future performance; and
   iii. The past performance is relevant to the investment or the services offered by the investment provider.

~~118.~~116. If the insurer undertakes long-term business, the insurer, in its promotional material, should endeavour to impress upon policyholders that the policy is intended to be a long-term contract and that surrender values, especially in the early years, can be less than the total amount of premiums paid.

8.3.3. Disclosure prior to providing services

~~119.~~117. When entering a contract of business with a policyholder, the insurer should communicate in writing as soon as possible:

a) Relevant and meaningful information about the insurer and the product in a comprehensive manner;
b) Benefits and risks to the policyholder in a fair and balanced way;
c) Obligations of the parties involved, including those for the insurer, intermediaries and policyholders in a clear and understandable way, for the duration of the contract;
d) Existence, duration and conditions relating to the right to cancel;
e) Claims and complaints handling and other contractual arrangements, including the appropriate contact points to submit claims, complaints and dispute claims; and
f) Duty of policyholders to disclose material information.

~~120.~~118. The insurer should be prepared to provide a policyholder with a full and fair

account of the fulfilment of its responsibilities. The frequency with which additional information is to be disclosed during the contract depends on the type of contractual arrangement.

8.3.4. Terms of business

~~121.~~119. Where such terms are not already expressly established in the policy issued to the policyholder, the insurer shall document its terms of business and provide each policyholder with a copy upon any service being provided to that policyholder, except when it is impractical to do so, in which case the document shall be provided at the earliest available opportunity.

~~122.~~120. The terms of business shall include information on the actions or inactions of the policyholder, which will lead to the termination of the business relationship by the insurer.

~~123.~~121. Prior to the signing-off of an agreement, the appropriate policyholder service representative shall explain the key terms and conditions to the policyholder on request or where deemed necessary based on the policyholder's circumstances.

8.3.5. Policy servicing

~~124.~~122. The insurer should service policies appropriately through to the point at which all obligations under the policy have been satisfied.

~~125.~~123. The insurer shall ensure timely and effective disclosure to the policyholder of information on any contractual changes during the life of the contract and disclose to the policyholder further relevant information depending on the type of insurance product.

~~126.~~124. The insurer should provide evidence of cover (including policy inclusions and exclusions) promptly after the inception of a policy.

~~127.~~125. Where the insurer is providing products with an investment element, the following information should be provided to policyholders:

a) Participation rights in surplus funds;
b) Basis of calculation and state of bonuses;
c) The current surrender value;
d) Premiums paid to date; and
e) For unit-linked life insurance, a report on the performance and investment strategy of each underlying investment fund and a statement of changes in the investments, including the number and value of the units and movements during the past year, administration fees, taxes, charges and current status of the portfolio of investments underlying the insurance contract.

8.3.6. Notices to the policyholder

~~128.~~126. The insurer shall notify the policyholder, in writing, within a reasonable time of any material change, such as:

a) Changes in fees, charges and interest rates;
b) Material modification to products or services;
c) Discontinuation of products and services; or
d) Contractual changes to policy terms and conditions.

~~129.~~127. Where there are changes in terms and conditions, the insurer should notify the policyholder of their rights and obligations regarding such changes and obtain the policyholder's consent as appropriate.

8.4. Policyholder assets

8.4.1. An insurer shall ensure the protection of the policyholder's assets against loss, fraud and misuse

~~130.~~128. Where the insurer has control of or is otherwise responsible for, assets belonging to a policyholder, the insurer should arrange appropriate controls and protection mechanisms for the protection of policyholders' investments and other similar financial assets, including against fraud, misappropriation or other misuses.

~~131.~~129. Protection can be by segregation and identification of those assets or otherwise, in accordance with the responsibility it has accepted. Such protection shall comply with the terms and conditions established in the contractual agreement and authorised by the policyholder.

~~132.~~130. Where the insurer is in control or is otherwise responsible for monies or assets belonging to the policyholder, the insurer shall have adequate systems and internal controls to identify and promptly remedy errors, fraud or other misuse by the insurer or its employees.

8.5. Complaint and error handling

8.5.1. The insurer shall handle complaints and errors in a manner that is fair and expedient

~~133.~~131. The insurer shall have procedures in place to promptly deal with policyholder complaints effectively through a fair and equitable process.

~~134.~~132. The insurer shall implement a complaints management framework that seeks to deal in a timely manner with any policyholder complaint. Where a complaint identifies a valid error, the insurer shall seek to resolve the error within a reasonable timeframe relative to the nature of the issue.

~~135.~~133. The policyholder should not be burdened with unreasonable costs when seeking to resolve a complaint.

~~136.~~134. The insurer shall document a complaint handling procedure which, at a minimum, includes processes for:

a) Making a complaint;

b) Handling complaints in a fair, timely and appropriate manner;
c) Acknowledging receipt of complaints;
d) Maintaining a complaint register containing details of complaints received and how they have been dealt with or resolved, including an indication of whether any action was required by the insurer; and
e) Analysing the patterns of complaints and errors received against themselves or intermediaries with respect to products that intermediaries may distribute on their behalf. Such information should be shared with the board or senior management, as appropriate.

~~137.~~135. Information on the complaint-handling procedures and the contact point for complaints shall be made publicly accessible (i.e., provided on the insurer's website and available upon request).

8.5.2. Claims disputes

~~138.~~136. The insurer shall establish claims dispute resolution procedures that follow a balanced and impartial approach. Such procedures should:

a) Avoid being overly complicated, such as having burdensome paperwork requirements; and
b) Ensure that the staff handling claims disputes are experienced in claims handling and appropriately qualified.

~~139.~~137. Decisions should include the reasoning in clear language relating closely to the specific disputable issues.

8.6. Communication of the policyholder's responsibilities

8.6.1. An insurer shall ensure that policyholders are aware of their responsibilities within the business relationship and have access to appropriate informational resources

~~140.~~138. While policyholders maintain a level of accountability for their own choices and decisions, the insurer should appropriately remind policyholders of their responsibilities to:

a) Read and understand the terms and conditions of products and services;
b) Disclose relevant information as it relates to the insurer's legal obligations, including but not limited to its Anti-Money Laundering and Anti-Terrorism Financing obligations, and inform the insurer of any changes to such required information;
c) Disclose relevant information to assist the insurer in managing the relationship and ensuring the suitability of its products and services for the policyholder;
d) Verify statements for correctness and inform the insurer of any suspected errors; and

e) Protect sensitive personal information used to access accounts or online policyholder dashboards.

8.6.2. Policyholder awareness

~~141.~~139. Where appropriate to do so, the insurer should develop programmes and resources to assist policyholders with developing the knowledge and skills necessary to:

a) Understand risks (including financial risks);
b) Make informed decisions and understand how their actions affect outcomes; and
c) Know when to access independent, competent and professional advice and assistance to help them make informed decisions.

~~142.~~140. The insurer should ensure such resources are available through an appropriate communication channel for the benefit of a policyholder.

~~9. IMPLEMENTATION~~

~~143. The Code comes into force on 1 September 2022, and registrants are required to be compliant by 1 September 2023 for Sections 1 to 7 and 1 March 2023 for Section 8.~~

BERMUDA MONETARY AUTHORITY

GUIDANCE NOTE

GUIDANCE ON THE APPLICATION OF THE PRUDENT PERSON PRINCIPLE

June 2026

Contents

Introduction

Global insurers, particularly those in the life and annuity sector, have experienced significant structural shifts over the past several years, including increased allocation to illiquid, hard-to-value assets that may be non-publicly traded and can be more complex than liquid traded assets. The Bermuda Monetary Authority (Authority or BMA) has increased its supervisory oversight of Bermuda's commercial insurers to obtain evidence that the risks associated with these shifts, including, but not limited to, increased allocation to illiquid investment strategies, are adequately understood, managed, and governed.

Over time, the Authority has strengthened both its supervisory approach and regulatory framework in response to the evolving nature and risk characteristics of the insurance sector. This has included enhanced supervisory engagement and cooperation with other regulators to develop a more holistic understanding of how cross-border insurance groups identify, assess, manage, report and monitor investment and other material risk exposures. As the risk landscape evolves, the Authority will continue to adapt its supervisory approach and regulatory framework to ensure it remains agile and fit for purpose.

Given the significance of these structural shifts, the BMA is issuing this Guidance to set out the BMA's expectations regarding the application of the Prudent Person Principle (PPP) by Bermuda-regulated commercial insurers[1] and insurance groups for which the BMA is the Group Supervisor. In particular, the Guidance sets out considerations relating to investment strategy, investment risk management, governance, outsourcing of investment-related services, asset-liability matching, risk concentration and diversification, complex and non-publicly traded assets, affiliated and related-party exposures and the use of derivatives and other financial instruments.

The Insurance Code of Conduct (Code) and Insurance (Group Supervision) Rules 2011 (Group Rules) require insurers[2] to implement the PPP as an integral part of their risk management framework for investment risk. Therefore, the Code and Group Rules should be read in conjunction with this Guidance.

[1] Classes 3A, 3B, 4, C, D and E.

[2] In this document, the term "insurers" includes "reinsurers", and "insurance groups" are groups for which the BMA is the group supervisor.

Overview of Expectations

1.1 The Guidance is addressed to all commercial insurers registered under Section 4 of the Insurance Act 1978 and Bermuda insurance groups.

1.2 The Guidance reflects the BMA's supervisory experience and engagements with commercial insurers, particularly long-term insurers. This is in the context of their increased investments 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. Insurers should be prepared to demonstrate effective Asset Liability Matching (ALM) strategies. The preparation should consider portfolio characteristics such as public versus private, liquidity across all asset classes, the sophistication and qualifications of investment professionals, portfolio construction, concentrations, equity investments, including alternatives and real estate. Insurers should also be prepared to demonstrate the appropriateness of any investment leveraging activities.

1.3 The PPP, as outlined in the Code[3] and Group Rules[4], requires that an individual entrusted with managing a client's funds may only invest in instruments that a reasonable individual who aims for capital preservation and return on investment would consider owning. This principle requires that the insurer, in determining the appropriate investment strategy and policy, may only assume investment risks that it can properly identify, measure, respond to, monitor, control and report on while taking into consideration its capital requirements and adequacy, short-term and long- term liquidity requirements, and policyholder obligations. Further, the insurer must ensure that investment decisions are made in the best interests of its policyholders. While this principle applies to all asset classes, special care may be warranted for assets with specific characteristics (e.g., private, affiliated, complex or highly illiquid assets). Market conditions may also necessitate special care for other, more risk-sensitive assets, such as real estate equity, concentrated lower- investment-grade corporate positions, and exposure to highly correlated assets.

1.4 Compliance with the PPP shall continue to be considered on a case-by-case basis notwithstanding the provisions in the Group Rules, the Code and this Guidance. Based on its business strategy and risk profile, what is prudent for one insurer may not be prudent for another. When applied to a particular insurer's circumstances, the PPP's standards are likely to allow for a range of reasonable investment strategies. In line with the BMA's supervisory approach to insurance regulation, the BMA will exercise its independent and objective assessment in this regard. If the assessment concludes that an insurer is not meeting the PPP's standards, senior management and the board are expected to take remedial action.

1.5 In addition to outlining the proposed expectations in detail, the BMA reminds insurers of the responsibilities resting with the board, senior management and control function holders,

[3] Paragraph 46 of the Code
[4] Paragraph 12 (2) of the Insurance (Group Supervision) Rules 2011

including but not limited to implementing the PPP. Senior management, including the chief executive officer, chief investment officer, chief financial officer, chief actuary, chief risk officer and other appropriate members of senior management, is responsible for ensuring that the insurer complies with the PPP. Additionally, the head of the insurer's internal audit function is responsible for the independent assurance of the adequacy and effectiveness of prudent person processes and procedures.

1.6 The BMA will assess the insurer's adherence to PPP with due regard to the Proportionality Principle as set out in the Code, including relative to the insurer's nature, scale and complexity. These elements will be considered collectively rather than individually. Additionally, the Proportionality Principle applies to all sections of this Guidance regardless of whether the principle is explicitly mentioned.

Expectations

Investment Strategy

1.1 An investment strategy that appropriately reflects the PPP should contain the following features as a minimum:

- Capital preservation and return on investment objectives
- Evidence of how the strategy considers the nature (including liquidity and predictability) and the duration of an insurer's liabilities and the best interests of policyholders
- A strategic asset allocation that includes appropriate and effective exposure limits by asset type, counterparty, sector, credit risk rating, geographical area and currency
- An asset selection process that pays due consideration to the risk profile of the insurer and its liquidity needs across different time horizons and stress scenarios
- A plan for the insurer's use of derivatives that considers the insurer's capital requirements and adequacy, short-term and long-term liquidity requirements, and policyholder obligations
- It has been established in the context of effective risk management and governance
- Where applicable, include a plan tailored to the insurer's use of non-publicly traded, illiquid, less transparent, alternative or non-traditional assets, off-balance sheet exposures, and related party-originated assets, among other bespoke and complex assets. In addition to the above considerations, where relevant, the plan should cover valuation, leverage, sourcing, concentrations, underwriting standards and selectivity, resource and expertise requirements, and conflicts of interest – all taking into account the context of the specific assets

Investment Risk Management

1.2 A robust investment risk management framework is necessary for insurers to adhere to the PPP when managing their investments. Compliance with PPP embeds investment activity into the broader risk management framework.

1.3 Insurers should only invest in assets whose risks they can correctly identify, measure, monitor, manage, control and report upon.

1.4 When insurers invest in asset structures or other instruments (e.g., structured assets and derivatives) where the risk exposure is dependent on the performance of underlying assets, they should also include the risks of these underlying assets within the scope of their investment risk management framework.

1.5 Insurers should demonstrate that they can effectively monitor their investments, including adherence to their set limits. Insurers' investment risk monitoring should cover, but not be limited to:

- Changes in value or characteristics of the assets, derivatives and other instruments held, including the underlying/look-through risks and exposures
- Changes in the external environment that may affect the security of assets
- Changes in concentrations to common risk drivers in the portfolio (asset type, counterparty, sector, credit risk rating, geographical area, and currency)
- Asset/liability mismatch, including liquidity mismatches of assets and liabilities
- Defaults, credit rating transitions and changes in credit spreads

1.6 Insurers should perform stress testing to consider the impact of potential scenarios on the insurer's capital, short-term and long-term liquidity and policyholder obligations. Stress scenarios should affect the monitored risk measures, and insurers should consider management actions in response to them.

1.7 For investments whose risks pass through to the policyholder, such as variable annuity separate accounts and index-linked contracts, insurers should, where applicable (i.e., where it is within their powers), ensure that the following requirements are met:

- The set of investment options offered to the policyholders (e.g., the set of funds that can be linked to a policy) consists of investments that can be generally considered to be in the best interests of policyholders (taking into account the different risk-return profiles of the investments offered) and their suitability for the targeted (retail) audience
- The risks associated with each investment option offered are disclosed by law where the products are sold, allowing policyholders to make informed investment decisions that align with their risk appetite and investment objectives given the set of investment options offered and the nature of those investments

1.8 Insurers should appropriately manage any conflicts of interest arising from any investments that back the kinds of policies mentioned in paragraph 1.7 above. Conflicts of interest in this context could occur, for example, through management fees earned by an affiliated asset manager, management fee kickbacks earned by the insurer, sharing

arrangements with the insurer or potentially through the funds offered to policyholders investing in affiliated assets. While potential conflicts of interest are most likely to occur at the level of the direct or primary insurer, it is also possible they could occur in the reinsurance context, e.g., if the reinsurer and the insurer design a product together (including deciding the investment options), or if the reinsurer otherwise influences the selection of the investment options offered to the primary policyholders.

Governance

1.9 The ultimate responsibility for sound and prudent governance and oversight of the insurer rests with its board. Although effective governance is essential to all insurers, those insurers with investment strategies that include illiquid, hard-to-value assets that are non-publicly traded and can be more complex than liquid traded assets should expect the BMA to exercise close ongoing supervisory scrutiny of their governance. To comply with PPP and recognise that certain risks may only be addressed through governance requirements, insurers must establish strong, effective investment-specific governance that, in turn, is an integral part of the insurer's broader governance system. Such investment governance may be accomplished through the insurer's risk management function. The purpose of this section is to identify specific areas of governance that the BMA expects the board to devote particular attention to with respect to its responsibilities for oversight of the insurer's compliance with the PPP. These include:

- Establishing adequate governance systems, including an investment-specific governance framework, in a manner that clearly takes into account compliance with PPP requirements
- Setting and overseeing the implementation of an appropriate business strategy, including an investment strategy. The business strategy must be supported by a clear and measurable statement of risk appetite (including investment limits) and must be owned and overseen by the board. The BMA expects to see clear evidence that the board pays particular attention to compliance with PPP
- Reviewing and approving significant policies and procedures that promote effective investment governance
- Identification and transparent disclosure of affiliated and related party exposures, including in financial statements, Generally Accepted Accounting Principles (GAAPs) and Financial Condition Report
- Ensuring the insurer establishes and implements policies, processes and procedures to identify and manage conflicts of interest. Excessive reliance on disclosures without adequate consideration of how conflict may be appropriately prevented or managed is not permitted. For example, overreliance on disclosures of a specific conflict of interest when there are more effective ways to address that conflict appropriately is not permitted. Insurers should place reliance on disclosures as the main risk mitigation tool only when their administrative arrangements cannot reasonably ensure that conflicted transactions are effected on arm's length terms
- Ensuring appropriate structures, policies and procedures (e.g., conflict committees,

disclosure, etc.) exist to deal with conflicts of interest effectively, especially in the context of the situations stated below (as a minimum):

- Related party asset management and origination activities
- End-to-end fees charged or extracted by the related asset manager, originator or structure
- Managing the accumulation of risks due to potential conflicts of interest with related party asset managers and/or originators

1.10 Insurers must govern the terms of the asset manager arrangement, including the role and suitability of the level of discretion (if any) granted to the asset managers. To comply with PPP, the Authority expects insurers that grant discretion to asset managers (including affiliated asset managers) to exercise appropriate risk management and oversight, particularly in relation to non- publicly traded, illiquid, non-traditional assets and other bespoke and complex assets.

1.11 Insurers must embed an effective risk culture, including (but not limited to) ensuring that the senior management compensation structure is, where applicable, aligned with the long-term nature of insurance liabilities. It must also consider the nature of the insurer's investments, including, where applicable, the lack of or limited historical data, the illiquid and complex nature of the investments.

1.12 When an insurer outsources investment management activities, whether to external third parties or affiliated entities, the board must ensure oversight and clear accountability. This should be handled as if the investments were managed internally by adhering to the insurer's own standards for governance and internal controls. The board should also ensure that the investment management agreement and any associated contractual arrangements include terms on compliance with jurisdictional laws and regulations. Agreements should also not prohibit cooperation with the Authority and the Authority's access to data and records in a timely manner. Where the assets are governed by laws of the ceding jurisdiction, but the insurer has the economic exposure, the investment activities, policies, guidelines and control mechanisms shall be implemented in a manner that complies with the requirements outlined in this Guidance.

1.13 To be effective, the board needs to include individuals with a suitable and up-to-date mix of skills and experience. Their expertise should cover the major business areas of the insurer, including investments, in order to enable informed decision-making and provide effective oversight of risks. This also requires robust and well-targeted management information.

1.14 The board should include an appropriate number of non-executives who are independent and non-conflicted and who, among them, have sufficient breadth of understanding of the

insurer's investment strategy to provide effective challenge to the executives[5]. The BMA expects to see evidence of effective challenge, relevant knowledge and experience, including the ability to solicit appropriate professional advice with in-depth expertise in the asset classes being pursued by the insurer.

Outsourcing of Investment-Related Services

1.15 Insurers that wholly or partially outsource the investment management function must ensure that any external or affiliated asset manager is aware of and complies with the requirements of PPP. The insurer must also ensure that its investment risk management framework is effectively implemented.

1.16 The insurer should have access to the requisite knowledge and skills to assess and manage the risks of its investments. When an external investment service provider is used, the insurer should retain adequate investment risk expertise in-house, as it remains ultimately responsible for its investments.

1.17 The insurer should have a good understanding of the different parties involved in its investments and how they impact the creation, extraction and reduction of value in the investment chain. These parties could include the investment advisor, asset manager, asset originator, special servicer, asset custodian, etc. Any potential conflicts of interest should be fully identified and mitigated in a manner that is in the best interest of policyholders. The insurer should consider the possibility of cash or assets being withheld by some parties e.g., holdbacks by a special servicer, such that assets are not available to meet policyholder obligations as and when they arise.

1.18 Insurers should conduct due diligence and monitor and review the performance of outsourced investment service providers on an ongoing basis, focusing on identifying any material changes or deficiencies that may impact the insurer's investment portfolio or risk profile.

1.19 Insurers should establish clear contractual agreements with investment-related service providers that outline the scope of the services, performance metrics and obligations of each party. These contracts should include provisions for regular reporting, oversight mechanisms and remediation measures in the event of non-compliance or underperformance.

1.20 Insurers should evaluate the potential impact on their investment portfolios and risk management capabilities in the event that a service provider becomes unable to fulfil its obligations. This assessment includes identifying critical dependencies and analysing the potential consequences of service disruption or cessation.

[5] Refer to Paragraphs 15 and 16 of the Code for more details.

1.21 Insurers should prepare contingency plans to mitigate the risks of dependency on a single service provider. This may involve diversifying service-provider relationships, establishing contingency systems or processes, or developing exit strategies for transitioning services to alternative providers when necessary.

1.22 Investments held by entities within a group are sometimes managed centrally by an investment management function, with all entities relying on its expertise. In such arrangements, the insurer and/or group should ensure the investment management function has the requisite knowledge and skills to assess and manage the risks associated with these investments. The investments should be managed with due regard to the needs of individual entities in addition to the group as a whole.

1.23 Insurers should conduct thorough due diligence on fee arrangements, assessing their alignment with the value provided by service providers and industry standards. This includes scrutinising fee structures for transparency, reasonableness and consistency with market norms. Insurers should establish clear policies and procedures for the review, approval and monitoring of fee arrangements, as well as disclosing fee structures and potential conflicts of interest to the BMA.

Match to Liabilities

1.24 PPP requires that the insurer's investments be made in consideration of the nature, duration, risks and cashflow profile of its obligations to policyholders to ensure there is adequate asset-liability management. In this regard, insurers should assess the materiality of any embedded optionality in proposed assets and the extent to which such optionality may erode the match to liabilities and introduce additional risks, e.g., reinvestment risk. The assessment should also consider how the optionality may vary over time and under stress conditions across different asset classes.

1.25 As liability cashflows are often uncertain or there are not always assets with appropriate cash flow characteristics, the insurer is usually not able to adopt a completely matched position. However, to the extent that assets and liabilities are not well matched, the extent of mismatching should not expose policyholders to risks that cannot be effectively managed by the insurer. The insurer should use scenario and sensitivity testing and other risk management techniques to ensure that it retains a robust capital position under a range of scenarios where the liability cashflows may change. It should also have appropriate risk appetite limits for Asset Liability Matching (ALM) purposes.

1.26 When assessing how assets match liabilities and establishing internal investment exposure limits, the insurer should consider gradual and sudden changes in lapses and other policyholder behaviours that could impact guarantees and options. This should

include those lapses of separate account products.

Risk Concentration, Risk Accumulation and Diversification

1.27 An insurer's investment policy and limits should be such that individual investments and exposures to different asset classes and risk factors are held and maintained at prudent levels.

1.28 An insurer should ensure there is no excessive risk concentration, in which a significant portion of the investment portfolio is exposed to a specific risk or a narrow set of risks. This requires the insurer to identify and mitigate such common risks that may be material to part of its investment portfolio.

1.29 An insurer's risk assessment should go beyond individual investments to consider the entire portfolio, including any unforeseen current, contingent, and emergent properties of the portfolio. An insurer may still accumulate risks even if it holds diverse, individually sound assets. These assets may collectively pose a higher level of risk due to correlations or dependencies during adverse market conditions.

1.30 An insurer should ensure its portfolio is appropriately diversified to limit volatility to levels that are consistent with the overall risk appetite and appropriate risk management, with consideration given to the profile of its policyholder liabilities. This should be established both across asset classes and within asset classes, sectors and risk factors, counterparties and geographies, such that the portfolio is not overly reliant on the performance of a single investment, a small set of investments or a specific market segment. Effective diversification requires careful consideration and ongoing monitoring that acknowledges that correlations between asset classes can change or break down and that the performance of seemingly unrelated assets may become more correlated during conditions of stress.

1.31 An insurer should demonstrate through comprehensive stress testing and scenario analysis that its investment portfolio is well-diversified and not exposed to undue risk concentration and accumulation. Stress testing and scenario analysis should be forward-looking, avoid bias and not be limited to what has happened in the past. The analysis should include reverse stress testing (with investments considered as part of the overall reverse stress testing) and be disclosed in the Commercial Insurer's Solvency Self-Assessment (CISSA) and Group Solvency Self-Assessment (GSSA).

1.32 The BMA expects insurers to set explicit individual and aggregate limits for assets that meet any of the following criteria: non-publicly traded, complex, unrated or rated below investment grade. In particular, specific limits should be considered for complex instruments, structured/securitised and private assets, including loans and bonds.

Complex and Non-Publicly Traded Assets

1.33 In considering investing in complex investments, insurers should comprehensively assess the inherent risks that may be present, including the heightened risk of large, sudden or unexpected losses due to limited transparency and information flow, volatility misestimation and difficulties in identifying and reflecting changes in risk profile before significant deterioration.

1.34 When assessing investment opportunities for non-publicly traded assets, an insurer should assess its capabilities and resources to determine whether it can appropriately identify, measure, monitor, respond to, control and report on the risks and complexities unique to non-publicly traded assets.

1.35 The insurer shall conduct appropriate and holistic due diligence to ensure an adequate understanding of the risks before the insurer invests in non-publicly traded assets and assumes these risks. In practice, this requires adequate investment in appropriate infrastructure, people, tools and systems to ensure the necessary due diligence and research over non-publicly traded assets is carried out. This due diligence should consider the investment manager's ability to manage the underlying collateral in the event of default and under stressed conditions. In the case of direct investments, the insurer would similarly need to consider the resources and expertise required for workouts in case of default. This would also include considering that the insurer may have to hold and manage the underlying collateral if there were a default, and whether capabilities exist to do so without adverse impact on the insurance business. The results of the due diligence and research should inform the identification of necessary infrastructure and resources, as well as the policies and limits that need to be established. This is subject to materiality and proportionality considerations. Specifically, the policy requirements and the level of detail regarding limits should correspond to the risks, uncertainties, and weaknesses identified during the due diligence and research process. Additionally, there should be sufficient investment in people, infrastructure, and other resources to support these efforts.

1.36 The insurer should not place blind reliance on ratings provided by rating providers for its own investment decision and risk management purposes. The BMA would expect insurers to demonstrate that due diligence is being carried out on both the assets and the chosen rating providers to assess whether the rating providers have adequate expertise in rating the specific asset type in question and assess if the rating scales of the ratings providers are well-understood and adequate. An insurer must itself, or through its outsourced asset managers, also perform its own assessment of the credit risk of investments and monitor it on an ongoing basis, thereby reducing mechanistic reliance on external ratings. Where the assessment indicates a level of credit risk that is not consistent with the external ratings provided, the insurer should both assess this via the CISSA/GSSA process, including its own economic view of capital, and consider whether the circumstances may warrant obtaining another credit rating from another acceptable rating

provider. Where an asset has a rating from only one rating provider, the BMA expects the insurer to demonstrate an understanding of the asset class and the impact of any potential ratings 'jump risk' that could result from material updates of the rating methodology. For enhanced transparency of the conduct of the insurance business and associated investment activities, the BMA expects insurers to use publicly issued external ratings over privately issued external ratings by default, where feasible. Where an insurer does not use publicly issued external ratings, the BMA expects the insurer to demonstrate, with clear justification, why the insurer is unable to use public ratings.

1.37 In setting investment limits and policies on investing in non-publicly traded assets, the insurer should consider whether, under moderate to severe stress scenarios, it would be a forced seller of such assets in order to meet rapidly rising liquidity needs e.g., increased lapses or margin calls on derivatives. This requires an assessment of the insurer's normal and stressed liquidity requirements across different time horizons. The liquidity stress testing should also consider the tail impact of asset funding commitments and the possibility that they may need to be fulfilled at a time when the insurer needs enhanced liquidity buffers. Such commitments, where they exist, shall be kept at prudent and manageable levels.

1.38 The Authority expects investment limits to be set so that liquidity needs under both normal and stress conditions can be met without forced sale of less liquid non-publicly traded assets. Insurers will be expected to demonstrate this to the BMA, including as part of the CISSA and GSSA process.

1.39 Liquidity positions should be assessed not only at the entity level but also for relevant non- fungible balance sheet pockets, e.g., assets in collateral accounts, where liquid assets and other sources may not be fungible across accounts. In practice, this means an insurer's liquidity assessments should be a combination of both top-down and bottom-up approaches.

1.40 A key feature of non-publicly traded assets is uncertainty on the values assigned to such assets, i.e., valuation uncertainty. The proper application of PPP places the onus on the insurer to ensure the valuation process is conducted in a manner that achieves prudent outcomes for policyholders and complies with Economic Balance Sheet and GAAP financial statements requirements.

1.41 An insurer is expected to have, either through outsourcing or internally, sufficient infrastructure and expertise to independently review values of non-publicly traded assets, to measure and monitor the associated uncertainty in valuation, and to have policies and procedures on how this should be reflected in the reported values. Insurers must demonstrate independence in the valuation review process and that effective controls are in place to manage any potential conflicts of interest (in the valuation process) between different stakeholders involved in the overall management of the assets. Where

unavoidable, the role and input of the asset manager into the valuation process, especially for hard-to-value assets, must be subject to good governance, transparency and meaningful controls over potential conflicts of interest. With appropriate controls insurers may rely on independent valuation by their asset manager(s). This does not remove the responsibility of the insurer to adequately assess and manage valuation uncertainty risk, including through independent valuation, regardless of whether the valuation function is outsourced or performed in-house.

1.42 Assessments should be carried out on the potential impact that valuation uncertainty could have on the insurer's solvency position under different adverse conditions or scenarios.

1.43 The impact of valuation lags in non-publicly traded assets should also be considered as part of the asset allocation process, including overall due diligence, asset class research, policy and limit setting, as well as the ongoing monitoring of risk. Insurers should consider whether it is prudent to increase investments in non-public assets when capacity emerges solely as a function of the valuation lag. When combined with the rebalancing and illiquidity risks, this may result in the forced sale of such assets in order to bring exposures within limits.

1.44 The BMA will assess, as part of its standard supervisory review process, the independent internal and external valuation review performed by insurers, in particular for complex and/or non-publicly traded investments.

Affiliated, Related and Connected Party Assets

1.45 Paragraph 33 of Part 4 of the Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Amendment Rules 2024 requires prior written regulatory approval from the Authority for all assets with counterparty credit exposure to an affiliate, related party or connected party of the insurer (collectively, "affiliated assets").

Commercial Insurer Solvency Self-Assessment and Group Solvency Self-Assessment

1.46 Insurers' own risk and solvency self-assessment should evidence and attest to their application of PPP and the considered impact on their solvency and liquidity positions.

1.47 The assessment and attestation should consider the expectations outlined herein, as well as other insurer-specific considerations.

1.48 Insurers are reminded that the standard capital requirement formula may be less suited to measure the risks of certain investments. As a result, the BMA expects insurers to self-assess the appropriateness of the standard capital charges and determine how these reconcile with the insurer's own estimates as derived from the implementation of its governance processes in the application of PPP. Material differences should be disclosed

and explained.

1.49 Through this self-reflective process, insurers should identify areas of strength and weakness; the report should assess potential impacts and outline interim and final corrective measures with a clear summary of ownership and responsible governance. The assessment and attestation shall not be submitted separately. Instead, they shall be integrated into the solvency self-assessment filing.

Use of Derivatives and Other Financial Instruments

1.50 An insurer choosing to engage in derivative activities should clearly define its objectives, investment and derivative strategy, governance mechanism and derivative use policies and processes. Derivatives should be considered in the context of a prudent overall asset-liability management strategy.

1.51 As part of its ongoing risk management, an insurer should be able to demonstrate that it can adequately recognise, measure and prudently manage the risks associated with the use of derivatives, including but not limited to hedge ineffectiveness, basis, replacement, credit, margin calls and residual risks.

1.52 Section 19 of the Insurance Act 1978 prohibits insurers from engaging in non-insurance business. Non-insurance business includes engaging in investment banking activities (among other things). This means that where derivatives are used, they are for risk management or portfolio management purposes (i.e., the purpose is to reduce risk and costs or generate additional capital or income with an acceptable level of risk).

1.53 An insurer should be satisfied with the suitability of derivative counterparties, the derivative collateral, the traceability of the derivative and, in the case of over-the-counter derivatives, the ability to value and close out the position when needed.

1.54 The collateral and liquidity risk implications should be adequately assessed under a variety of normal and adverse conditions.

1.55 When engaging in securities lending or repurchase agreements, an insurer should consider counterparty risk and reinvestment risk. The insurer should ensure the transactions are appropriately collateralised (with suitably frequent updates) and should recognise that these transactions do not mitigate the market or credit risk in the security since the security is returned to the insurer at the end of the transaction. The insurer should take care when investing the collateral, ensuring that the transactions are covered even under adverse market conditions.

1.56 When deciding whether to invest in off-balance sheet structures, the insurer should take into account its unique characteristics and risk exposures, including how these may

correlate with on balance sheet exposures under stressed conditions. For example, commitments to invest in a fund may be drawn down by the fund at a time when the insurer may want to reduce its exposure. This may undermine the effectiveness of its risk mitigation under stress.

Effective Date

1.57 This Guidance will enter into force on publication.

BR /2026

Insurance (Group Supervision) Amendment Rules 2026

TABLE OF CONTENTS

The Bermuda Monetary Authority, in the exercise of the power conferred by section 27F of the Insurance Act 1978, makes the following Rules:

Citation

1 These Rules, which amend the Insurance (Group Supervision) Rules 2011 (the "principal Rules"), may be cited as the Insurance (Group Supervision) Amendment Rules 2026.

Interpretation

2 In these Rules, "Act" means the Insurance Act 1978.

Amends rule 2

3 The principal Rules are amended in rule 2—

(a) in paragraph (1), by inserting in the appropriate alphabetical order the following—

"designated insurance holding company" means an entity designated and registered under section 27BB of the Act as a designated insurance holding company in respect of an insurance group;

"long-term business" has the meaning given in section 1(1) of the Act;

"prudent person principle" has the meaning given in rule 12(2);

(b) in paragraph (2) by—

(i) inserting after the words "ultimate parent" the words "in Bermuda";

(ii) adding after the words "member of the group" the words ", or the designated insurance holding company (if any)."

Amends rule 5

4 The principal Rules are amended in rule 5 by revoking and replacing paragraph (4) as follows—

" (4) A parent board shall—

(a) establish annually and maintain policies and procedures that address, and manage, adequately actual or potential conflicts of interest; and

(b) ensure that such policies and procedures with respect to such conflicts of interest are adopted and implemented."

Amends rule 12

5 The principal Rules are amended in rule 12(1)—

(a) in paragraph (a) by deleting the words "investment of assets" and substituting the words "management of its investments";

(b) in paragraph (b)—

(i) in subparagraph (i) by inserting after the words "for the" the words "appropriate and effective";

(ii) in subparagraph (ii) by deleting the words "more complex or less transparent assets, markets or instruments", and substituting the words "non-publicly traded, illiquid, less transparent, alternative or non-traditional assets, off-balance sheet exposures, and affiliated and related party-originated assets, among other bespoke and complex assets;";

(iii) in subparagraph (v) by deleting. the words "governing the employment and valuation" and substituting the words "governing the appropriate employment, valuation, effectiveness and other risks";

(iv) by inserting after subparagraph (v) the following—

"(va) methodologies to assess and monitor the impact of contingent exposures;

(vb)methodologies to assess and monitor the impact of embedded options within asset classes and in long-term products (long-term business);";

(v) by inserting after subparagraph (vi) the following—

"(via) processes to consider valuation uncertainty, including valuation lags, particularly with respect to non-publicly traded assets including—

(A) review of valuations;

(B) measurement and monitoring the uncertainty in valuation;

(C) management of potential conflicts of interest;

(vib) processes to demonstrate due diligence is being carried out with respect to asset ratings and ratings providers, including—

(A) own assessment of credit risk and own economic view of capital requirements;

(B) potential ratings jump risk that could result from material updates of rating methodologies or change in rating providers;

(C) assessment of adequacy of ratings monitoring processes and ongoing appropriateness of private ratings;".

Amends rule 13

6 The principal Rules are amended in rule 13—

(a) in paragraph (b) by deleting the words "short term";

(b) by deleting "and" from the end of paragraph (d) and inserting after paragraph (d) the following—

"(da) benchmarking and stress and scenario testing to assist in the identification and determination of liquidity requirements under normal and stressed conditions, including unexpected adverse developments, across different time horizons; and these shall at a minimum include the following—

(i) forced selling of assets, including specific considerations of non-publicly traded assets;

(ii) derivative margin calls;

(iii) asset funding commitments;

(iv) embedded optionality in long-term products; and".

Amends rule 15

7 The principal Rules are amended in rule 15(b)(iv) by inserting after the word "including" the words "asset funding commitments,".

Amends rule 18

8 The principal Rules are amended in rule 18 by revoking and replacing paragraph (1) as follows—

"(1) A designated insurer shall ensure that—

(a) senior management establishes written group solvency self-assessment procedures that reflect all reasonably foreseeable material risks arising from both on and off-balance sheet exposures of the insurance group and material intra-group exposures; and

(b) a group solvency self-assessment is carried out annually that reflects the application of the prudent person principle; and the group solvency self-assessment shall be filed by the designated insurer as part of the insurance group's year-end filing requirements."

Amends rule 21

9 The principal Rules are amended in rule 21(3)(a)(i) by deleting the words "in accordance with the provisions of section 6D of the Act, or in accordance with Rules made under section 6A of the Act" and substituting the words "in accordance with the provisions of section 27FA(3) of the Act,".

Inserts rule 33

10 The principal Rules are amended by inserting after rule 32 the following—

"Application of Rules in relation to designated insurance holding companies

33 (1) These Rules shall apply where a designated insurance holding company has been designated and registered under section 27BB of the Act in relation to an insurance group.

(2) Where these Rules apply pursuant to paragraph (1) and subject to paragraph (3), references in these Rules to "designated insurer", "parent board" and "parent company" respectively shall be construed as if they were references to "designated insurance holding company".

(3) With respect to the application of these Rules in relation to designated insurance holding companies, the Rules shall be construed—

(a) in rules 19(1)(a), 23(1) and 24(1), as if the words "designated insurance holding company or parent company (if different)" were substituted for the words "parent company";

(b) in rule 19(1)(b), as if the words "designated insurance holding company or parent company's (if different)" were substituted for the words "parent company's".

Commencement

11 These Rules shall come into operation on .

Made this day of 2026

Chairman of the Bermuda Monetary Authority

BR /2026

Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2026

TABLE OF CONTENTS

The Bermuda Monetary Authority, in the exercise of the power conferred by section 27F of the Insurance Act 1978, makes the following Rules:

Citation

1 These Rules, which amend the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (the "principal Rules"), may be cited as the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2026.

Interpretation

2 In these Rules, "Act" means the Insurance Act 1978.

Amends rule 2

3 The principal Rules are amended in rule 2 by inserting in the appropriate alphabetical order the following—

> "designated insurance holding company" means an entity designated and registered under section 27BB of the Act as a designated insurance holding company in respect of an insurance group;".

Amends rule 3

4 The principal Rules are amended in rule 3(2)(b) by deleting the words "section 6D" and substituting the words "section 27FA(3)".

Inserts rule 9A

5 The principal Rules are amended by inserting after rule 9 the following—

> "**Application of Rules in relation to designated insurance holding companies**
> 9A Where a designated insurance company has been designated and registered in respect of an insurance group, these Rules shall apply in relation to the designated insurance holding company as if references to "designated insurer" and "parent company" or "parent" were references to "designated insurance holding company.".

Commencement

6 These Rules shall come into operation on .

Made this day of 2026

Chairman of the Bermuda Monetary Authority