



NOTICE

RE: INSURANCE CODE OF CONDUCT

May 2011

The Insurance Code of Conduct establishes duties, requirements and standards to be complied with by (re)insurers registered under Section 4 of the Insurance Act 1978 (“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 taken into account by the Bermuda Monetary Authority (“the Authority”) in determining whether an (re)insurer is conducting its business in a sound and prudent manner, as required by paragraph 4 of the minimum criteria.

The Code formally came into effect on 1st July 2010 and the established deadline for compliance with the Code is 1st July 2011. Subsequent to 1st July 2011, the Authority will include an evaluation of an (re)insurers compliance with the Code as part of its regular prudential supervision and on-site review process. Every registered (re)insurer shall confirm with the submission of its annual statutory financial return that its board, assisted by management, has reviewed the provisions of the Code and has determined that the (re)insurer has complied with those provisions based on the nature, scale and complexity of its operations.

In connection with the Insurance Code of Conduct (“the Code”), the Bermuda Monetary Authority (the Authority) is mindful of the need to provide clarity to the market regarding the Authority’s expectations with respect to demonstrated compliance with the Code.

The Authority shall evaluate an (re)insurer’s compliance with the Code in a proportional manner with due regard for the specific nature, scale and complexity of a company’s operations, and does not propose to prescribe the exact manner in which (re)insurers shall demonstrate compliance with the Code. When applying the Code and developing an appropriate corporate governance and risk management framework, the Authority expects that individual (re)insurers will use their best judgment in determining what is proportional in relation to their individual circumstances. Where the Authority’s views on an appropriately proportional approach for a (re)insurer differs from the judgment of

the company, the Authority will engage in discussion with the board and management of the (re)insurer to address the issue.

In order to assist firms in developing an approach to compliance with the Code, please find attached two sample resolutions (Appendices I and II) which the Authority has reviewed and deemed as acceptable representations of a board's annual comprehensive review of compliance with the Code, including the requirements relating to the corporate governance and risk management frameworks.

Appendix I represents an example of an acceptable board resolution for "limited purpose (re)insurers", namely Class 1, Class 2 or Class 3 captive (re)insurers with limited scope, less complex business models and little or no unrelated third party business. Appendix II represents an example of a more comprehensive board resolution, appropriate for commercial (re)insurers and those Class 3 captives with more complex business operations requiring a more sophisticated risk management framework.

These resolutions are only examples of what may be appropriate as a minimum standard for a (re)insurer and should be reviewed in light of the nature, scale and complexity of the (re)insurer's operations and amended as appropriate. The resolutions should be maintained by the Principal Representative along with supporting documentation, and made available for review upon the request of the Authority. The Authority would expect to review more comprehensive evidence of the corporate governance and risk management frameworks required by the Code in order to reach a conclusion as to the effectiveness of such frameworks as part of our prudential supervision or on-site inspection process.

In addition, the Code requires the signing and the submission with the annual statutory financial return of a declaration by the Principal Representative and two directors. Appendix III is an example of such a statutory declaration.

Please note that the Authority continues to review the annual statutory reporting requirements with a view towards consolidating, to the extent practicable and appropriate, the required statutory returns.

Should (re)insurers have any questions or concerns or wish to have further consultation with respect to the requirements of the Code, please contact the Director, Insurance Licensing & Authorisation, Mr. Shelby Weldon, at (441) 278-0209 or sweldon@bma.bm.

APPENDIX I

SAMPLE LIMITED PURPOSE INSURER RESOLUTION

The Manager reminded the Board of the need to consider the Company's compliance with the Insurance Code of Conduct. The Code is based on the proportionality principle and takes account of such factors as the relationships between the Company, its ceding insurers, and the parties insured, together with the characteristics of the business written and the volume thereof.

The Manager presented a paper summarizing the pertinent aspects of the Code in relation to the operations of the Company. The Board discussed and considered the following items:

1. The Company is writing certain property risks of the parent group on a direct basis and is reinsured in respect of these risks by an A-rated reinsurer.
2. The Company is also writing the working layer of the parent group's workmen's compensation risks as reinsurance of an A-rated licensed insurer. This insurer holds letters of credit issued by the Company's bankers providing security for the Company's exposure. The risk profile of the Company can therefore be viewed as limited.
3. The Company's Board consists of representatives of the shareholder together with a Bermuda lawyer and a senior executive of the Company's Manager. This combination of Board skills and experience ensures appropriate governance to represent the interests of the shareholder that the insurance program is properly structured, and the Company remains in compliance with Bermuda statutory requirements at all times.
4. The Board meets twice a year, which is considered adequate considering the limited nature of the Company's activities. The Board regularly reviews the Company's underwriting activities, investment activities and financial results.
5. Day-to-day management is the responsibility of the Company's independent Insurance Manager who is well experienced in captive insurance matters. The Manager's responsibilities are clearly set out in the management agreement that is reviewed annually.

6. The Company's Manager has also been appointed as the Company's Principal Representative and the Board recognizes that the Principal Representative has important reporting responsibilities under the Insurance Act.
7. The Board and the shareholder receive quarterly financial statements for the Company prepared by the Manager and the annual financial statements are audited by .
8. The shareholder/insured representatives on the Board fully understand the underlying risks assumed by the Company and the Board Member from the Manager has assessed the appropriateness of these risks from the Company's perspective.
9. The Board has discussed the capital and surplus of the Company and considers that the net worth of the Company is adequate for the risks assumed and the overall strategic goals of the Company.
10. Since the Company is an integral part of the parent's risk management program public disclosure of the Company's activities is considered inappropriate. The Company does provide its audited financial statements each year to the ceding insurers.

Having discussed the above and other factors, the Board considered the Company's compliance with the Insurance Code of Conduct to be appropriate.

APPENDIX II

SAMPLE COMPREHENSIVE RESOLUTION

GOVERNANCE FRAMEWORK

PART ONE

Introduction

In accordance with best international practice and the requirements of the Insurance Code of Conduct (“the Code”) issued by the Bermuda Monetary Authority under the powers contained in the Insurance Act 1978, the Company is required to establish and maintain a sound corporate governance and risk management framework having regard to, without limitation, principles of corporate discipline, accountability, responsibility, compliance and oversight. The corporate governance and risk management framework should be appropriate for the Company, having regard to the Company’s nature, scale and complexity.

To ensure that the Company has an appropriate corporate governance and risk management framework in line with best international practice and the Code, the Board, assisted by management of the Company, including certain of the various organizations providing management services to the Company (collectively, “Management”) conducted a review of the Company’s business and operations to identify the various risks facing the Company and determined which of those risks are material to the Company. The Board and Management then reviewed the Company’s various guidelines and its procedures and controls to ensure that they were appropriate for the Company, in light of the material risks identified.

Where necessary, the guidelines and the procedures and controls were updated and documented in order to evidence and ensure compliance with best international practice and the Code.

Part Two of the Governance Framework contains details of the Company, its affiliates, the business of the Company, the Board of Directors and Management. Part Three of the Governance Framework contains a summary of the Board and Management’s review of risks facing the Company and the materiality of those risks to the Company. The Schedules contain the Guidelines and the Procedures and Controls for risks material to the Company, and the Appendices contain various ancillary documents relevant to the delegation by the Board of certain of the Company’s operations and functions

In addition to its ongoing oversight of the Company’s business operations, the Board considers it appropriate that the Board and Management conduct a comprehensive review of the business of the Company at least once a year to determine whether there have been any material changes in the risk profile of the Company and, if necessary, modify and update the corporate governance and risk management framework established by the Board.

PART TWO

The Company and its Affiliates

The Company is a Bermuda exempted company limited by shares incorporated in [year]. The Company's business is to [act as a captive insurance company to its parent and affiliates / act as a group captive for _____ / act as an agency captive for _____ / act as a reinsurer of its parent and affiliate / other]. As such, the Company is registered as a Class [_____] insurer under Bermuda Insurance Act 1978, as amended (the "Insurance Act").

As a Class [_____] insurer, the Company is licensed to [insure or reinsure only the general business risks of its parent and affiliates / insure and reinsure the general business risk of its parent and affiliates as well as third-parties provided that the premiums relating to third-parties does not exceed [20% / 50%] of the Company's total premium written / insure and reinsure the general business risks of its shareholders and their affiliates / reinsure the general business risks of its parent affiliates and general business risks of third-parties provided that the premiums relating to the third-party do not exceed 20% of the total premiums written or US\$50,000,000.]

The Company's ultimate parent is [_____] (the "Parent"). The Parent and its affiliates (together, the "Group") are [*briefly describe Group and its business*].

The Company's Business

[With a view to showing the nature, scale and complexity for the purpose of applying the proportionality principle, among other things, briefly describe the Company's current business in broad terms setting out (1) lines written; (2) relationship between Company and policyholders (i.e. third-party or captive); (3) indication of volume; (4) direct vs. fronted; (5) reinsurance; (6) describe capital structure, particularly contingent capital such as parental guarantees and letters of credit; (7) set out any conditions on the certificate of registration; (8) set out any regulatory approvals, permissions, etc. and any conditions attached thereto.]

The Board of Directors

List Directors, with brief professional C.V. on each, including (where appropriate) a description of the Director's general role at the Parent or within the Group.

Management

The Company has no employees of its own. Instead, the Company outsources the day-to-day management and other key services to third-parties. These include:

1. Management

The Company has contracted with [_____], a Bermuda insurance management company specializing in the management of insurance companies. [_____]

] is licensed and approved by the Bermuda Monetary Authority to provide management services to the Company [and to act as the Company's principal representative in accordance with the Insurance Act].

2. Claims

The Company has contracted with [] to administer claims. [] is

3. *[Other management functions as applicable].*

Statutory Functionholders

The Insurance Act requires that the Company appoint various statutory functionholders approved by the Bermuda Monetary Authority. Those statutory functionholders are:

Principal Representative –

Approved Auditor –

Loss Reserve Specialist / Approved Actuary -

The Board shall at all times maintain oversight of the functions carried out by each of the third-party service providers and statutory functionholders listed above, and shall conduct regular (not less than annual) reviews of the services provided by each such service provider. The Board shall also furnish a copy of this Governance Framework, together with all relevant Guidelines and Procedures and Controls, and review the same with its service providers to ensure due compliance in the discharge by such services providers of their delegated functions.

PART THREE

Risk Identification

The Board and Management recognize that there are numerous risks facing the Company. The Board and Management have reviewed the potential impact various risks might have upon the Company to determine whether such risks are material and what additional policies, procedures and controls, if any, should be put in place to appropriately manage and mitigate material risks to the Company.

The various risks facing the Company and the extent to which such risks are considered material to the Company are set out below:

1. Underwriting Risk

As a captive insurance company, the underwriting of risk is a material risk to the Company. Such risks are mitigated and controlled by compliance with the Company's Underwriting Guidelines and the Underwriting Procedures and Controls set out in Schedule 1.

2. Investment Risk and Management Risk

The investment of the Company's capital and surplus available to pay claims to policyholders is a material risk to the Company. Such risks are mitigated and controlled by compliance with the Company's Investment Guidelines and the Investment Procedures and Controls set out in Schedule 2.

3. Credit Risk

[As the Company purchases reinsurance for much of its business] and [is financially supported by a [parent guarantee] credit risk is considered a material risk to the Company.] Such risks are mitigated and controlled by compliance with the Company's Guidelines set out in Schedule 3.

4. Operational Risk

Various aspects of operational risks are considered material risks to the Company. These include, in particular, business process risk, compliance risk, information systems risk, fraud risk and outsourcing risk.

As a captive only insuring the risk of its parent and affiliates certain aspects of operational risk, such as distribution channel risk, are not considered material risks of the Company.

As many of the Company's operational matters are outsourced, the Board and Management discussed the Procedures and Controls used by the key service providers with those service providers. Copies of the relevant Guidelines and other Procedures and Controls of the Company have also been furnished to the service providers to ensure their compliance with the same. The Board is satisfied that the operational controls in place with such service providers are adequate to mitigate the limited operational risk inherent in the Company's [captive insurance] / [affiliated reinsurance business].

5. Legal Risk

As an insurance company selling insurance and buying reinsurance legal risk is considered a material risk of the Group. These risks are mitigated and controlled by compliance with the Company's various guidelines and procedures and controls and those of the relevant service providers.

6. Group Risk

[As the Company's capital structure includes a [parental guarantee] and the Company invests its assets/reinsures with other group companies group risk is considered a material risk of the Company.] These risks are mitigated and controlled by compliance with the Company's various guidelines and procedures and controls.

[As the Company is not reliant upon a parental guarantee and does not invest its assets with the Group, its risk to the Group is limited to an underwriting risk and hence group risk is not considered a material risk to the Company.]

7. Strategic Risk

As the Company's business is limited to reinsuring the Group, strategic risk is not considered a material risk of the Company, albeit the Company may be strategic to the Group.

8. Reputational Risk

As the Company's business is limited to reinsuring the Group, reputational risk is not considered a material risk to the Company.

GUIDELINES, PROCEDURES AND CONTROLS

SCHEDULE 1(a)

UNDERWRITING GUIDELINES

Underwriting Guidelines should be prepared which note the captive nature of the Company's business and generally describe the business currently written or to be written. It is unlikely that a guideline of "only insuring the risks of the Group" will be satisfactory.

If reinsurance is purchased, set minimum rating or other appropriate parameter.

Require material deviation from the Underwriting Guidelines to be subject to Board and/ or Committee approval

SCHEDULE 1(b)

UNDERWRITING CONTROLS AND PROCEDURES

Set out steps Board and Management currently take to establish oversight and control over underwriting and any other operational functions, for example:

Underwriting:

- *Discuss proposed lines and limits with Group*
- *Discuss premiums and fees with fronting company*
- *Discuss reinsurance with broker*
- *Obtain actuarial advice on pricing and reserves*
- *Confirm Insurance Act compliance with insurance manager, including controls and procedures*

Insert other procedures and controls as appropriate.

Claims Handling:

- *Review claims from TPA / Front Company*

Reinsurance:

- *Review Reinsurance Program to determine claim*

SCHEDULE 2(a)

INVESTMENT GUIDELINES

Adopt Investment Guidelines:

- *Company-specific or group investment guidelines or if Company invests through an affiliate, note affiliate's guidelines and confirm appropriateness for Company*
- *Require Board or Committee approval for deviation from Investment Guidelines*

SCHEDULE 2(b)

INVESTMENT PROCEDURES AND CONTROLS

Set out investment procedures and controls (may be procedures and controls of Parent or service provider)

SCHEDULE 3

OPERATIONAL AND LEGAL RISK PROCEDURE AND CONTROLS

Set out service agreements and operations and procedures and controls of key service providers to ensure they are adequate for services provided – insurance manager, third-party administrator, etc. – include copies of key agreements in Appendix

Where relevant, note Group's internal audit procedure and confirm Company falls within Group's internal audit

OTHERS AS APPROPRIATE

APPENDIX I

THE CODE OF CONDUCT

APPENDIX II
KEY SERVICE CONTRACTS
AND
DUE DILIGENCE MATERIALS

- Insurance Manager Agreement
- TPA Agreement
- Etc.

APPENDIX III

STATUTORY DECLARATION IN THE MATTER OF THE INSURANCE CODE OF CONDUCT [THE COMPANY]

I, [Name], the Principal Representative together with the undersigned Directors of [the Company] **DO SOLEMNLY DECLARE THAT:**

1. We are Directors and the Principal Representative of [the Company] and, as such, are familiar with the insurance business written by the Company and, with respect to the matters set forth in Paragraph 2 have examined the [the Company's] compliance with the Insurance Code of Conduct and have reviewed the same with such relevant personnel and/or service providers of [the Company] as we deemed necessary in order to satisfy ourselves as to compliance thereof.
2. To the best of our knowledge, based upon the inquiries set forth in Paragraph 1 hereof there is sufficient evidence to declare that [the Company] has complied with the duties, requirements and standards set out in the Code of Conduct;

SWORN by the above named [Principal Representative / Director] at [Location] this [date] day of [Month, Year].)
)
)_____