

Sir David Walker
Secretariat Office
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

29 September 2009

Dear Sir

We write in response to the consultation document published on 16 July 2009 entitled "A review of corporate governance in UK banks and other financial industry entities".

Overview of Hardy Group

To understand the comments and representations we make herein, it might be useful to provide an outline of the size and nature of our business.

The Hardy Group is a Bermuda domiciled specialist insurer and reinsurer with a composite underwriting portfolio, focusing on short tail risks, operating through Lloyd's of London. For the 2009 year of account, the Group's managed syndicate, syndicate 382, has underwriting capacity of £250 million. The Group is rated "A" (Excellent) by A.M. Best and has been awarded a Standard & Poor "4 bells" rating. The group has a current market capitalisation of approximately £150 million and employs almost 90 people.

Hardy Underwriting Bermuda Limited ("HUB") is listed on the London Stock Exchange. HUB is the ultimate holding company for the Hardy group of companies. HUB has undertaken to comply with the UK's corporate governance regime as if it were a UK registered entity.

Our response is broken down into general matters and then further by a number of the broad headings used in the report.

General

1. As noted within its body, the review focused in the main on large listed banking groups. As a relatively small listed company operating in the Lloyd's insurance market, the report creates a great deal of uncertainty as to how, and which of, the recommendations are meant to apply to our situation. Clarification of how the recommendations apply to smaller, non banking financial institutions is required.
2. There is a danger in reading across recommendations focused on large companies in a sector where control functions and reward structures have been found ineffectual that, when

HARDY

implemented across the whole financial sector, they could well be disproportionate and indiscriminate. This needs to be avoided. Those sub-sectors of the financial sector that have not displayed a lack of control and disproportionate reward structures should not simply be tarred with the same brush.

Functioning of the board and evaluation of performance

1. Time commitment – we subscribe absolutely to the concept that the non-executive members of the board need to allocate sufficient time to the company so as to be able to understand the business and provide meaningful input and challenge. We do not believe imposing a minimum number of days involvement as a requirement is a workable framework for achieving this. Consideration needs to be given to company size and complexity when determining whether non-executives are adequately fulfilling their duties.
2. Clarification is sought as to whether the recommendation that the Chairman of a BOFI should be proposed for election on an annual basis is to apply to smaller companies outside of the banking sector. Any measure that gives rise to annual uncertainty over the Chairman's position without good cause could prove destabilising to a business. Unless shareholder feedback suggests that the performance of the Chairman is sub-standard we believe annual election would be unduly onerous. In cases where shareholders are dissatisfied with any director's performance, our view is that the Companies Act provides perfectly workable procedures for shareholders to propose resolutions for the removal of those directors should they so desire. This existing process effectively makes this annual re-election proposal redundant.

Governance of risk

1. Clarification is sought as to whether the recommendation that a BOFI should establish a risk committee separately from the audit committee is to apply to smaller companies outside of the banking sector.
2. Clarification is sought as to whether the recommendation that a BOFI should be served by an independent CRO is to apply to smaller companies outside of the banking sector.

Remuneration

1. Clarification is sought as to whether, and if so to what extent, the recommendation that a BOFI should have a remuneration structure with a significant deferral element for variable remuneration is to apply to smaller companies outside of the banking sector. We are not aware that the insurance industry is considered to be one where variable remuneration is misaligned with risk or the duration of risk, so the appropriateness to the industry of the prescriptive approach recommended is questioned.
2. Deferral of a proportion of variable pay is already a feature of our remuneration policy and we are undertaking further work in relation to remuneration packages.

In prescribing the time periods that should apply to different proportions of variable remuneration, the recommendation ignores the specific risk profile of companies and seek

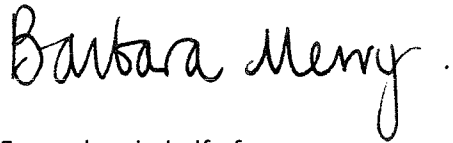
HARDY

to impose an arbitrary timescale. For example in our case, as a Lloyd's insurance business writing predominantly short tail risks, in broad terms the outcome of any underwriting year is known after 3 years (the risk period), so to impose a 5 year term on variable pay would be to misalign risk and reward. In addition, in formulating financial year results for Lloyd's companies, the underwriting return is based upon a blend of income earned over the previous three years, meaning that an element of deferment is already built into the result that is published. To insist on non-industry specific deferment periods (as recommended) would penalise our industry by mandating that variable pay be deferred for a period beyond the risk period which, in turn, would lead to an inability to attract and retain talent.

3. When recommending that executive board members and other executives should be expected to maintain a shareholding or retain a portion of vested awards at least equal to their total compensation on a historic or expected basis, to be built up over a period at the discretion of the remuneration committee, we would ask for an explanation as to how the level for maintenance/retention was determined and what is expected during the transitional period.

We are happy for the contents of this submission to be published on an attributable basis.

Yours faithfully



For and on behalf of

Hardy Underwriting Bermuda Limited