BERMUDA MONETARY AUTHORITY
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23rd July 2007

Chief Executive Officer
Bermuda Licensed Class 4 Company

Dear Sirs:

Re: Bermuda Risk-Based Capital Model Development ("RBC") and Company Specific Internal Models ("Internal Models")

The Insurance Department would like to invite your company to take part in the continuation of the RBC project and a proposal to consider the use of Internal Models which will assist in determining a company's regulatory capital requirement ("RCR").

The RBC project was designed explicitly to produce a tool to aid in the *quantification of capital* requirements for the Class 3 and Class 4 Bermuda commercial writers to be rolled out in phases beginning with the Class 4s. The Authority received delivery of the RBC model in June 2007. Upon training and discussions with *all* the Class 4 companies, we anticipate 'operation' by the 2007 year-end to accompany the Class 4 statutory financial returns to be filed with the Authority in April 2008. It is anticipated that a separate calibration exercise and consultation would be required before applying the RBC model to Class 3 commercial writers.

The RBC model in its current form is a 'static' model calibrated to reflect the average risk of Bermuda licensed Class 4 insurers and (re) insurers. Accordingly, an Internal Model may better reflect a given company's risk-profile and provide a more appropriate capital adequacy measure. In this regard, the Authority also proposes to approve Internal Models for consideration when determining capital adequacy where the models meet specific criteria. The Authority would encourage Class 4 insurers and (re) insurers with proprietary models to make application for Internal Model approval in the event that the relevant legislation is amended accordingly.

The RBC project and use of Internal Models are of crucial importance to Bermuda. The overarching goal of this undertaking is to ensure that Bermuda continues to be recognised as committed to maintaining international standards of transparency and contributing to global financial stability while enabling market innovation and dynamism.

Towards this end we have provided two consultative papers for your review and comment. The first one considers the use of company specific Internal Models to assist with the determination of a company's capital requirement. The second paper addresses the Bermuda Solvency Capital Requirement in particular and how the Authority will assess the solvency requirement of the Class 4 insurers and (re) insurers under its remit.

In addition, the Authority proposes to expand the statutory return to include additional forward-looking information, including MD&A and proforma financials. This information, along with drafts of amended statutory financial statements and the RBC model will be e-mailed to a company representative for your consideration and comment.

Please note that the deadline for comment on these papers and the other information to be included with the statutory return is **Friday September 14th , 2007**. The deadline for comment on the RBC model is **Friday October 12th , 2007**. All comments should be sent via e-mail to the attention of dburgess@bma.bm and kanderson@bma.bm.

We look forward to your comments.

Sincerely,

Craig Swan
Assistant Director
Insurance Sector Analysis

cc. Jeremy Cox, Supervisor of Insurance