

SymmetRE Reinsurance Treaty

PROGRAM SUMMARY

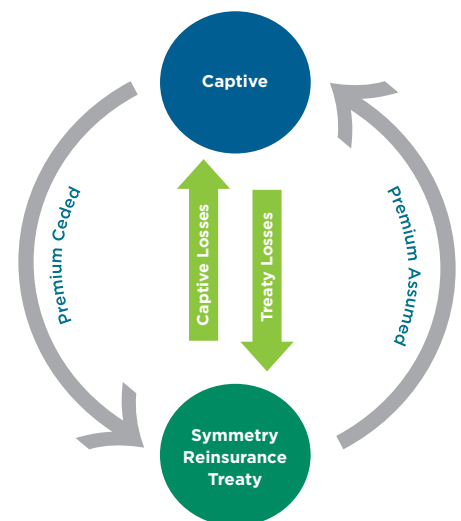
SymmetRE is a new pooling facility designed for use by captives or a cell accessed through Marsh's protected cell company, Mangrove Insurance Solutions, PCC.¹ Through a wholly-owned captive or protected cell, members of SymmetRE would share one another's Workers' Compensation and Employers' Liability losses. The pooling structure and concept is based on the successful 12-year history of the Green Island Reinsurance Treaty. Similar to Green Island, SymmetRE will enable captives to diversify their underwriting portfolio. Through the pooling mechanism, participating captives or cells can 'share' their loss experience, transferring a portion of their risk in exchange for assuming the risks of other treaty participants.

In addition to providing captives with risk diversification, participation in SymmetRE can result in a reduction in the variability of expected losses for individual members. Each member will be writing a smaller portion of a large pool of losses. The reduction in loss variability produced by the pooling mechanism is designed to stabilize cash expenditures on losses assumed by SymmetRE participants.

OPERATION OF THE PROGRAM

The SymmetRE concept is based on the assumption and distribution of a relatively low primary retention, typically allowing losses to be estimated with a high degree of confidence. It is contemplated that participants will cede Workers' Compensation and Employers' Liability losses up to \$100,000 per occurrence.

Participation in the program will be governed by an agreement detailing accounting for losses, premium determination, funds-handling, membership application, appointment of advisors, and other issues involving management of the association. The direction of the program will substantially be determined by the members through a Participants' Committee and a number of sub-committees.



For illustrative purposes only.
(Source: Captive Solutions)

POTENTIAL ADVANTAGES OF POOLING

■ Source of Unrelated Risk

Can provide a source of recurring third party business by transforming related risk normally retained by a company into unrelated risk.

¹ the transaction between parent company and protected cell must meet tax and accounting standards that define a legitimate insurance transaction

■ Reduce the Variability of Loss Costs

By participating in SymmetRE, members can reduce the variability of expected losses without increasing the overall (expected) cost of risk.

■ No Additional Capital or Surplus Required / Lower Frictional Costs; no new captive needed

Captive owners have flexibility to structure their underlying program in a cost-effective way, including the use of self-insurance, deductibles, or retrospectively rated plans.

■ Transitioning from a 'Humana Captive' Structure

As companies streamline their corporate structure and reduce the number of subsidiaries, they may seek to transition from a 'Humana model' captive strategy. IRS Revenue Ruling 2002-90 set the safe-harbor at 12 subsidiaries, with no one subsidiary accounting for more than 15% of the risk. SymmetRE may provide a suitable alternative structure that relies on unrelated risk as a positive factor in the test for status as an insurance company for US Federal income tax purposes.

■ Fewer Significant Collateral Concerns

SymmetRE can offer simultaneous accounting of premium payments and claims recoveries, so credit risk can be reduced and participants can invest captive or protected cell funds prudently and with few restrictions.

OUTLINE OF SYMMETRE METHODOLOGY

1. SymmetRE will operate on an annual basis. Each year, each participant will have its ultimate expected Workers' Compensation losses (limited to \$100,000/occurrence) for the forthcoming underwriting year actuarially assessed. The assessments will be undertaken by one actuarial firm using a common methodology to enable a standard approach and consistent application.
2. Generally, each captive or cell will enter into a reinsurance agreement whereby:
 - it agrees to cede 100% of its WC exposures (limited to \$100,000/occurrence) to SymmetRE, consisting of itself and the captives and cells of the other treaty members, at a premium equal to its ultimate expected losses, and;
 - it agrees to reimburse the other treaty members for its share of total losses in SymmetRE.

Each captive's share of SymmetRE is the proportion that its own expected losses bear to total SymmetRE expected losses

3. Generally, each captive or cell will pay its premium to SymmetRE and receive back a premium relating to its share of the overall SymmetRE exposures. A minority part will relate to its own exposures but the majority will relate to the exposures of the other members. For each member, the gross premium received from SymmetRE is expected to be the same amount as the gross premium paid to SymmetRE.
4. There is an aggregate loss limit to cap the amount of losses that any one participant can cede to SymmetRE. This limit is 2 times, or 200%, of a member's expected losses for an underwriting year. Additional safeguards will be built into the pooling arrangement designed to protect participants against adverse loss experience including but not limited to:
 - A low per occurrence limit (\$100,000);
 - A batch clause limiting the impact of multiple losses caused by the same occurrence to one loss;
 - A loss stabilization mechanism which serves to partially mitigate the impact of individual participant loss experience on underwriting results;
 - Annual premium rating takes past loss experience into account. Therefore, if a participant ceded adverse loss experience to SymmetRE, future premium rates will increase to reflect this experience.



5. Marsh will engage an independent audit firm to provide a risk transfer opinion on SymmetRE to satisfy requirements of FAS113.
6. Marsh will prepare the reinsurance documentation and arrange for same day receipt and payment of premiums to help reduce loss of investment income to members.
7. Claim settlements and recoveries will be effected at predetermined quarterly dates. Losses for each underwriting year will continue to be adjusted quarterly until all claims for that underwriting year have settled or the members decide to close the year.
8. Marsh will prepare the necessary accounting documents related to claim settlement and, as with the premium, arrange for same day transfer of funds to reduce loss of investment income to members.
9. To achieve this it will be necessary for each participant, through its captive, to make available to Marsh claims information in a consistent format and within an agreed timeframe. Marsh will maintain a database of this information.
10. The initial group of participants for the first underwriting year will be identified by Marsh. Further participants may join SymmetRE for subsequent underwriting years but only with the approval of the existing members (or designated Committee).

PROVEN SUCCESS OF CONCEPT

Marsh is one of the market leaders in captive development. SymmetRE participants can benefit from the success of the Green Island Reinsurance Treaty. Green Island has been in existence since 1997 and is recognized as the most successful pooling facility of its kind. As of 2009, Green Island consists of 16 member companies with estimated annual premiums of approximately \$380 million. SymmetRE is structured in a similar manner to Green Island and made available to companies with generally lower expected losses than Green Island's minimum threshold.

OTHER MATTERS

By accepting other participants' risks through SymmetRE, participating captives and protected cells are left with *unrelated risk*. Unrelated risk is an element considered by the IRS when determining if a captive is an insurance company for tax purposes. IRS Revenue Ruling 2002-89 outlined a safe-harbor for captives writing at least 50% unrelated risk (providing that other key factors in the ruling are met).

With the recent implementation of FIN 48, companies are required as part of the preparation of financial statements to evaluate all transactions and make a determination of whether or not related tax benefits meet a "more-likely-than-not" recognition threshold (>50% certainty). If a position meets this threshold, a company would recognize for financial statement purposes the appropriate portion of the tax benefit that is likely to be realized upon ultimate settlement in its financial statements; the company would accrue interest and possibly penalties on the unrecognized portion of the tax benefit (the excess, if any, of the benefit claimed on its tax return over the amount recognized on its financial statements). The amount of the tax benefit to be recognized by each company will depend on each company's individual facts and the degree of confidence related to the position. Disclosure of the details of the uncertain tax position in financial statement footnotes may be required.

One of the goals of SymmetRE is to provide members with substantial unrelated premium and risk diversification. Each member should make its own evaluation of whether its captive will qualify for Federal insurance company tax treatment. Marsh makes no representation or assurance that Federal income tax treatment as an insurance company will be achieved by SymmetRE members.



CANDIDATES FOR SymmetRE

In order to be considered for participation in SymmetRE, ideal candidates must demonstrate:

- Existence of a captive, OR willingness to form a captive or protected cell;
- \$1 - \$5 million in retained losses within the first \$100,000/occurrence of Workers' Compensation and Employers' Liability;
- Financially healthy parent company;
- Commitment to risk management and loss management; and
- Loss Data – paid and incurred loss amounts for the latest five years with comparable exposure data.

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