

SRS Cell Facilities

Introduction

A captive insurance company is an insurance company owned and controlled by its insured(s) with the primary role of insuring the risk exposure of its owner(s) and affiliates. A cell facility is a type of captive insurance company where a sponsor, like Strategic Risk Solutions (SRS), sets up and owns the company and then sells or rents cells to businesses that need it. Often referred to as a condo captive, renting a cell within the facility, is typically easier to establish and less expensive to operate than forming a standalone captive or re/insurance company.

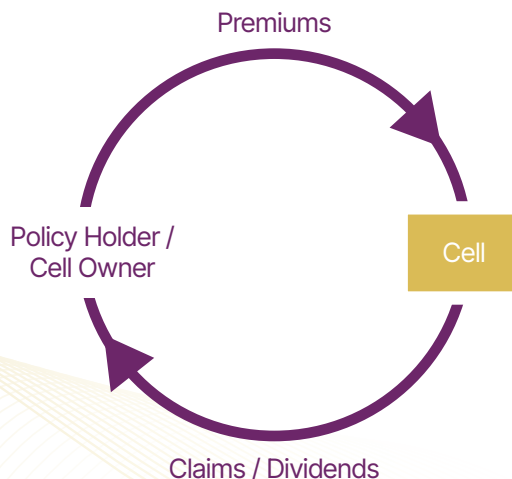
Types of Cell Facilities

There are many terms to describe cell facilities, but most relate to the domicile nomenclature and the degree of separation between the cells. The cell may be legally separated from other cells simply by statute or have extra protection by being separately incorporated.

For example, Cayman cell facilities are referred to as Segregated Portfolio Company (SPC) which allows for the legal separation of assets and liabilities within the law. Portfolio insurance companies (PIC's) are also available by statute and provide additional separation protection by being separately incorporated. Vermont and some onshore domiciles refer to cell facilities as Sponsored Captives. Cells in these facilities are separated by statute but each cell may also be separately incorporated.

Uses of a Cell Facility

A cell facility may be used as a rent-a-captive solution as an alternative to a standalone captive or as a transformer vehicle to allow investors to provide risk capital to a re/insurance company.



Benefits of a Cell

As the owner of the cell facility has already gone through the regulatory process to set up the insurance company, using a cell facility offers several advantages to a participant over forming their own company.

- **Speed:** Regulatory approval for each cell may take days rather than months for each cell versus other forms of captive insurance companies. In some domiciles, pre-authorization processes allow cells to be set up as fast as 48 hours.
- **Reduced Regulatory Compliance:** Many of the compliance requirements are applicable to the facility rather than the individual cells. The regulatory compliance burden falls on the facility owner, not the cell participants.
- **Ease of Operation:** Key service providers, such as auditors and actuaries, have been preselected and are familiar with the facility. Minimal time is required by cell owners in managing the cell's operations.
- **Lower Capital Requirements:** The minimum statutory capital is provided from the Core and by the owner of the facility. There is no minimum capital requirement for each individual cell, although each Cell must be funded to adequately cover the minimum margin of solvency/risk gap.
- **Lower Operating Costs:** Functions are centralized with the costs spread across all cell participants, offering substantial savings on management and establishment of their own licensed entity.

While a cell facility offers several benefits over a standalone company, there can be less control for the cell participants in having to use the facilities' service providers. Collateral requirements can be stricter to protect the owners from losses in the individual cells and the facility owner will charge a rental fee to use a cell in their facility.

SRS Cell Facilities

Rent-A-Captive Uses

DIRECT RISK RETENTION

Where a cell participant wishes to retain risk for a line of coverage that does not require a policy from a commercially licensed insurance company, the cell facility can provide an efficient and structured way to retain risk.

The cell facility owner will require the cell participant to provide collateral to protect its underwriting position.

Fronted Reinsurance Program

Where a commercial insurance fronting company is required to satisfy regulatory or contractual requirements, a cell can provide an effective way to retain risk and participate in the program for either the insured for large individual risks or an agent underwriting a book of business.



Warehousing

Given the ease of operation and speed of set-up, a cell can be an ideal vehicle to start a captive program or to exit an insurance program, including entities that want to move from a carrier or broker-sponsored cell facility.

Reinsurance Transformer Uses

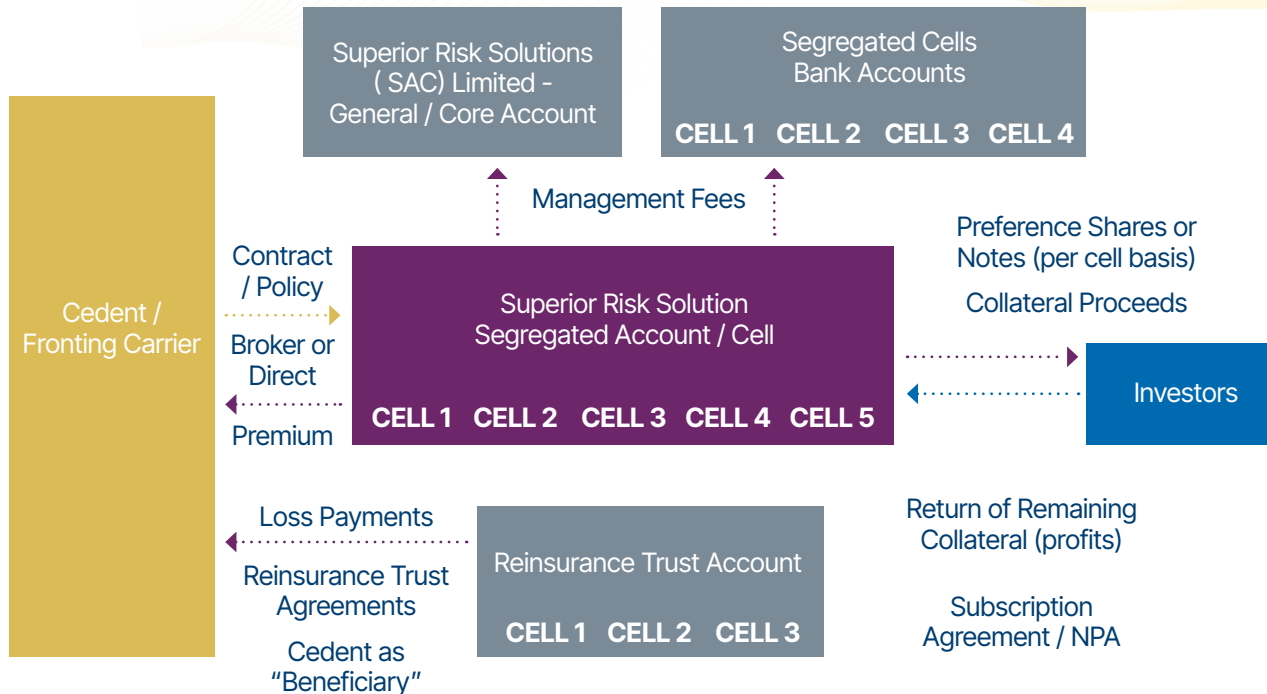
An insurance transformer or transformer entity (both "transformer") is a licensed re/insurance vehicle that acts as an intermediary. It facilitates the transaction process of transforming risk between a re/insurance company and third-party capital investors like capital markets participants. The obligations under the re/insurance agreements are fully collateralized to the aggregate limit of liability for the benefit of the ceding re/insurer. Transformer vehicles may also be used to access or add additional market capacity.

What Does A Transformer Offer To Third-Party Investors?

- Immediate access to the ILS / collateralized reinsurance sector
- Cost and time savings compared to establishing a stand-alone insurance entity
- No requirement for a separate licensed entity
- Segregated accounts/cells can be set up as needed, with no limit to number of segregated accounts
- Potential for attractive returns and better performance than rated corporate securities
- Diversification of assets through low correlation for investors, as the performance is linked to non-financial risks (e.g., natural disasters) and not correlated to the traditional bond market
- Measurable risk profile: the re/insurance industry models the risk and is supported by data and analysis of potential returns and losses
- Assets and liabilities are "ring fenced" and not commingled with any other segregated account

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Collateralized Re/Insurance Transaction Process Diagram



Strategic Risk Solutions and Cell Facilities

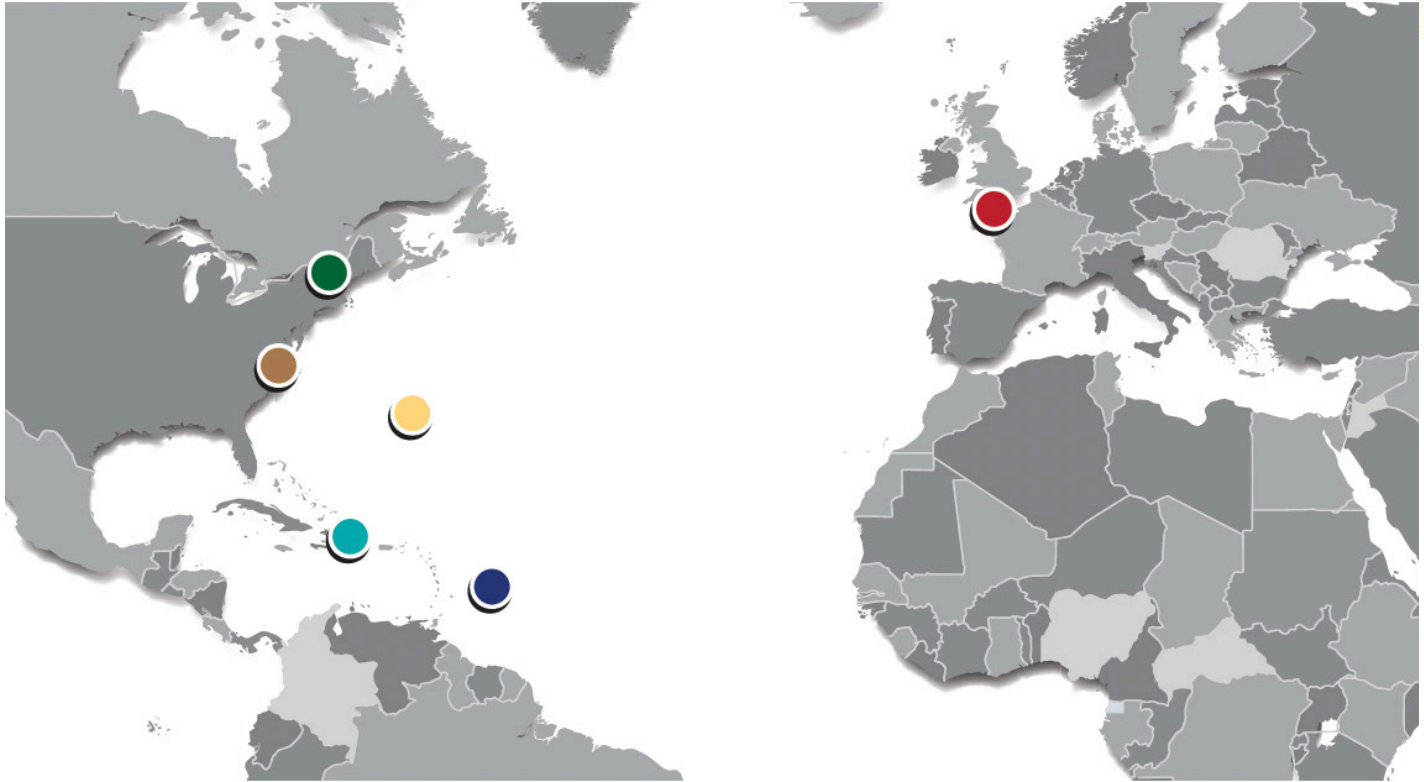
SRS provides consulting and management services in the creation of cell facilities and individual cells. The company has been at the forefront of many of the developments in the use of cell facilities, including the creation and/or management of:

- The first onshore Sponsored (protected cell) Captive, which was licensed in the state of Vermont.
- The world's first serial LLC Captive in the state of Delaware.
- The world's first and second separate accounts in the state of Vermont.
- The first Portfolio Insurance Companies licensed in the Cayman Islands.

SRS manages "private label" cell facilities for our partners in different domiciles. Some of these facilities may be available for use by clients looking for a cell facility and we would be happy to make introductions to our partners to use these facilities. In addition, SRS has six cell facilities which are available for use by its clients. These facilities are in different domiciles – both onshore and offshore - using different cell structures to provide our clients with the most options. They are suitable for prospective captive owners looking for a rent-a-captive solution, as well as capital market investors looking to participate in re/insurance programs.

SRS Cell Facilities

Cell Facility Locations



- *Green Mountain Sponsored Captive, Vermont*
- *Outer Banks Risks Solutions, Inc. North Carolina*
- *Opportuna Insurance PPC, Guernsey*

- *Coral Stone Insurance SPC, Cayman Islands*
- *Superior Risks Solutions SAC, Ltd., Bermuda*
- *Global Re SCC, Barbados*

About SRS

SRS is a leading independent insurance company manager and consultant specializing in the design of risk transfer programs using captive insurance and other non-traditional insurance mechanisms. SRS has been providing captive and re/insurance management services in major domiciles worldwide since 1993 and is currently the fourth largest insurance company manager in the world with over 900 insurance entities under management. Captives under management include public, private, and not for profit entities in a variety of industry segments, including manufacturing, construction, healthcare, utilities, transportation, and retail. Re/insurance company structures under management include commercial insurers, Class 3 and 4 Bermuda reinsurers, insurance exchanges, special purpose vehicles and ILS structures.