SRS Cell Facilities

Introduction

A captive insurance company is an insurance company owned and controlled by its insured(s), founded with the primary goal of insuring the risk exposure of its owner(s) and affiliates. A cell facility is a type of captive insurance company in which a sponsor, such as Strategic Risk Solutions (SRS), sets up and owns the captive company and then sells or rents the company's cells to businesses that need them. When a cell is rented within a facility in this way, the resulting captive is often referred to as a "condo captive." Condo captives are typically easier to establish and less expensive to operate than a standalone captive or (re)insurance company.

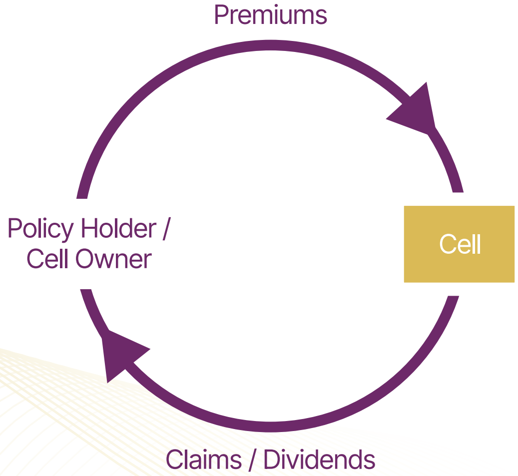
Types of Cell Facilities

There are many terms to describe different cell facilities, but most relate to the domicile nomenclature as well as the degree of separation between the cells. A cell may be legally separated from other cells by statute or may be given extra protection by being separately incorporated.

For example, Cayman cell facilities are referred to as segregated portfolio companies (SPCs). SPCs allow for the legal separation of assets and liabilities. Cayman also offers portfolio insurance companies (PICs), which are available by statute and provide additional protection by being separately incorporated. Meanwhile, Vermont and similar 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 opposed to establishing a standalone captive) or may be utilized as a transformer vehicle, which enables investors to provide risk capital to a (re)insurance company.



Benefits of a Cell

As the owner of a cell facility (e.g., SRS) has already gone through the regulatory process to set up the captive insurance company, cell facilities offer participants several advantages over the formation of their own separate company. These include:

- **Speed:** Regulatory approval for each cell can take days rather than months, unlike with other forms of captive insurance companies. (In some domiciles, pre-authorization processes allow cells to be set up in as little as 48 hours.)
- **Reduced Regulatory Compliance:** Many compliance requirements are applicable to the facility itself, rather than the individual cells. This means the regulatory compliance burden falls to the facility owner, not the cell participants.
- **Ease of Operation:** Key service providers (such as auditors and actuaries) are preselected and thoroughly familiar with their respective facilities. As such, minimal time is required by cell owners to manage cell operations.
- **Lower Capital Requirements:** The minimum statutory capital is provided through the core and by the owner of the facility. There's no minimum capital requirement for each individual cell, although each cell must be adequately funded to cover the minimum margin of solvency/risk gap.
- **Lower Operating Costs:** Functions are centralized, with costs spread across all cell participants. This offers substantial establishment and management savings.

While a cell facility offers several benefits over a standalone company, cell participants sometimes have reduced control. (For example, participants are obliged to use their facilities' preselected service providers.) In addition, collateral requirements for the individual cells can be stricter in order to protect facility owners against loss, and participants can also expect to pay a rental fee for the privilege of using a cell within a serviced facility.

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Rent-A-Captive Uses

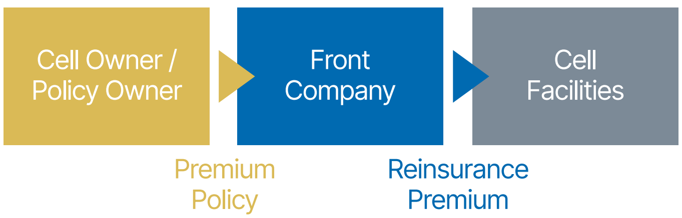
DIRECT RISK RETENTION

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, a cell facility can provide a structured and efficient way to retain said risk.

In such cases, the facility owner will require the cell participant to provide collateral to protect the cells 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 either for the insured (in the case of large individual risks) or for an agent underwriting a book of business.



Warehousing

Given the ease of operation and speed of setup , a cell can be an ideal vehicle for starting a captive program or for exiting another insurance program—particularly for entities that want to move away from a carrier or broker-sponsored cell facility.

Reinsurance Transformer Uses

An insurance transformer or transformer entity (often referred to simply as a "transformer") is a licensed (re) insurance vehicle that acts as an intermediary. It facilitates the process of transferring risk between a (re)insurance company and third-party capital investors, such as capital markets participants. Obligations under (re)insurance agreements are fully collateralized to the aggregate limit of liability for the benefit of the ceding (re)insurer. Transformers may also be used to access or add market capacity.

What Does A Transformer Offer Third-Party Investors?

- Immediate access to the ILS/collateralized reinsurance sector.
- Cost and time savings (compared to establishing a standalone insurance entity).
- No separate licensed entity requirement.
- Segregated accounts/cells can be set up as needed, with no number limit.
- Potential for attractive returns and better performance than rated corporate securities.
- Diversification of assets through low correlation for investors; 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 co-mingled with any other segregated account.

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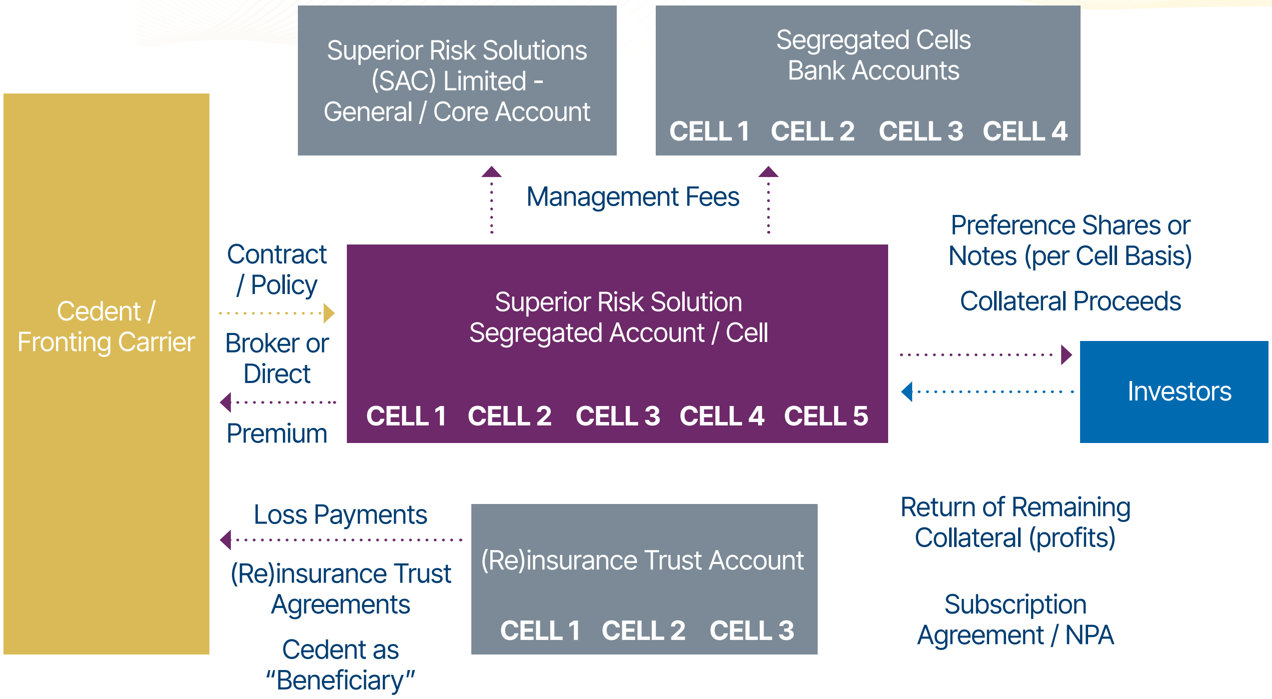
Collateralized (Re)Insurance Transaction Process Diagram



Strategic Risk Solutions and Cell Facilities

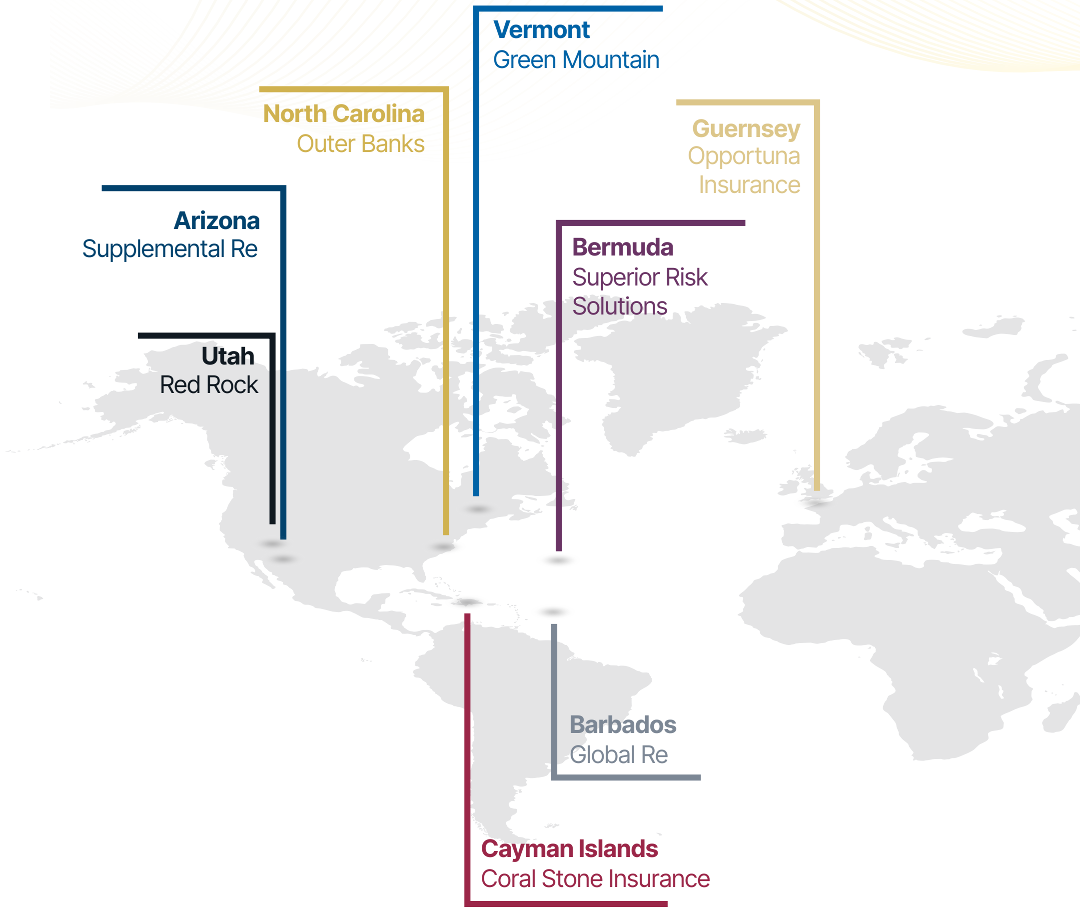
SRS provides consulting and management services in the creation of both cell facilities and individual cells. The company has been at the forefront of many developments in the use of cell facilities, including the creation and/or management of:

- 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 PICs 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 our clients, and we'd be happy to make introductions to our partners to help with this process . In addition, SRS has six proprietary cell facilities available to our clients. These facilities are in different domiciles—both onshore and offshore—using different cell structures in order to provide clients with the widest range of options possible. SRS facilities are suitable for prospective captive owners searching for a rent-a-captive solution as well as for capital market investors looking to participate in (re)insurance programs.

SRS Cell Facilities

Cell Facility Locations



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.