

ProfitSURE™

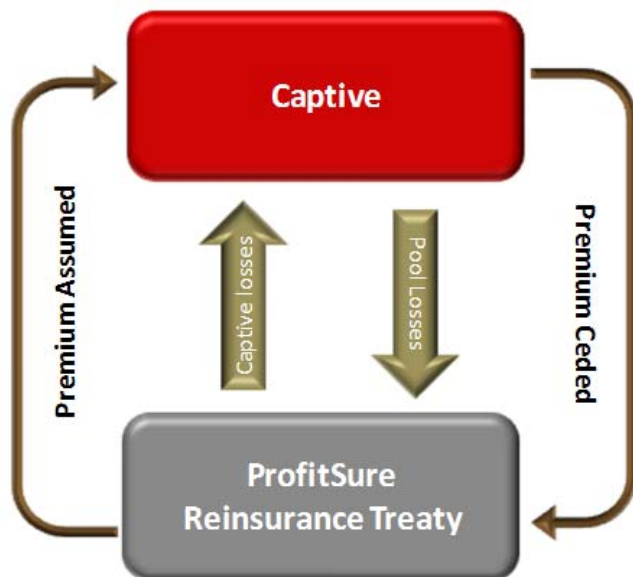
PROGRAM SUMMARY

ProfitSURE™ will provide substantial financial benefits to middle market businesses, in addition to reducing workers' compensation loss volatility. It is an innovative program that should be explored by every business with at least \$300,000 in annual workers' compensation losses.

ProfitSURE™ is an insurance treaty program designed for middle market businesses and their affiliated captives or segregated cell captives.¹ Through a wholly-owned captive or segregated cell, members of ProfitSURE™ will share workers' compensation losses, allowing members to diversify their underwriting portfolio. Through the Treaty, participating captives or cells can "share" their loss experience by transferring a layer of their risk in exchange for assuming the risks of other treaty members.

In addition to providing captives with risk diversification (unrelated risk), participation in ProfitSURE™ will make annual workers' compensation losses more predictable, because each member writes a small portion of a large pool of losses. The increased predictability in annual losses produced by the pooling mechanism is designed to stabilize cash expenditures on losses assumed by treaty members. In order to eliminate any potential moral hazard, numerous safeguards are utilized in the sharing methodology.

OPERATION OF THE PROGRAM



The Treaty is based on the assumption and distribution of a low primary retention, allowing losses to be estimated with a high degree of confidence. Participants will transfer workers' compensation and employers' liability losses up to \$100,000 per occurrence.

Participation in the program is governed by an agreement detailing accounting for losses, premium determination, funds-handling, and claims settlement.

For illustrative purposes only

¹ Captives and/or segregated cell captives can be formed and managed for businesses that do not have a one.

ADVANTAGES OF ProfitSURE™ Treaty

- **Financial Benefit**
ProfitSURE™ provides a source of recurring third party business by transforming related risk normally retained by a company into unrelated risk. Unrelated risk is a necessary component to be a valid insurance transaction, under IRS Revenue Ruling 2002-89. This can provide a substantial financial benefit to participants.
- **No Need to Change Existing Carrier/TPA Relationship**
ProfitSURE™ is an “overlay” program that solely pertains to the expected loss funding retained by the insured. Any existing carrier and/or claims handling arrangements are independent from the Treaty structure and can remain intact.
- **Increased Loss Predictability**
By participating in ProfitSURE™, members will increase the predictability of expected losses without increasing the overall (expected) cost of risk.
- **Minimal Collateral Requirements / Lower Frictional Costs**
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.
- **No Credit Risk**
Each participant in ProfitSURE™ will be required to collateralize any potential obligations to the other treaty members. If any member becomes insolvent or breaches the Treaty, the rest of the Treaty will not be adversely affected.

OUTLINE OF TREATY METHODOLOGY

1. ProfitSURE™ will operate on an annual basis. Each year, every participant will have its ultimate expected workers’ compensation losses (limited to \$100,000/occurrence) for the next 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. Each business will pay its ProfitSURE™ premium under the Treaty and its captive or cell will receive back an equal amount of unrelated premium relating to its share of the overall exposures pursuant to the Treaty. A minority part will relate to its own exposures (related), but the majority will relate to the exposures of the other members (unrelated).
3. In the Treaty, each captive or cell will:
 - Accept a participation percentage of all WC exposures (limited to 100,000/occurrence), at a premium equal to its ultimate expected losses, and;
 - Agrees to reimburse the other treaty members for its share of total losses under the Treaty.
4. The Treaty will have an aggregate loss limit to cap the amount of losses that any one participant can cede to the Treaty. This limit is 1.25 times, or 125%, of a member’s expected losses in the \$100,000/occurrence layer for the underwriting year. Additional safeguards are built into the

Treaty structure designed to protect participants against adverse loss experience, including but not limited to:

- A low per occurrence limit (\$100,000);
 - Annual premium rating takes past loss experience into account. Therefore, if a participant ceded better than expected loss experience to the Treaty, future premium rates will decrease to reflect this experience.
 - Actual loss experience (not just expected) is factored into the sharing formula, crediting treaty members for good underwriting experience and holding those accountable whose losses are in excess of expected.
5. An independent actuarial firm has been engaged to provide a risk transfer opinion on the Treaty to satisfy requirements of FAS113 (Commonly known as a “10% chance of a 10% loss”).
 6. Insurance documentation will be prepared for each treaty member, and arrangements will be made for immediate receipt and payment of premiums to help reduce loss of investment income.
 7. Approximately three years after the end of the treaty term, claim settlements and recoveries will occur. At this time, a detailed actuarial settlement report will be provided to each member outlining loss and sharing experience. As with the premium, arrangements will be made for expedited transfer of funds to reduce loss of investment income to treaty members.

PROVEN SUCCESS OF CONCEPT

For over 25 years, insurance pools and treaties have been well recognized in the municipal and large corporate context. ProfitSURE™ expands this concept to middle market companies.

CANDIDATES FOR ProfitSURE™

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

- Existence of a captive, OR willingness to form a captive or protected cell;
- \$300,000 - \$7 million in retained losses within the first \$100,000/occurrence of Workers’ Compensation and Employers’ Liability;
- Be on a Large Deductible or Self-Insured structure, or be willing to switch to one;
- Commitment to risk management and loss management; and
- Loss and payroll data for the most current five year period.

For a discussion on the benefits your client or business can receive from ProfitSURE™, please contact Keystone Risk Partners

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