



ROUNDSTONE

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CELL CAPTIVES ARE THE RIGHT MOVE.

Introduction and Background.

Insurance is a significant expense for most and managing its growth and benefit can provide your enterprise with strategic advantages. A captive insurance company is one approach for controlling your insurance costs. These licensed and regulated insurance companies that are owned by the insured are critical components of most risk management strategies. The reason is the cost and coverage control captives offer their owners. Whether a captive insurance company is right for you depends upon your particular risk or exposure, the size of your business and the activity or inactivity of the traditional insurance market. Fortunately, the ability to enter or exit the captive market has become a lot easier through cell or segregated account captive companies. Here is how.

Guarantee yourself the best service providers available

Cell or segregated account captive facilities offer the opportunity to quickly and cost effectively enter the captive market. Captive cell companies provide ready-made management services at a level equal or above the world's most sophisticated insurance enterprises. The audit, loss reserving, accounting, regulatory and investment management services are established with proven best of breed service providers. Efficiency is realized when you are not forced to spend months and thousands on the vendor selection process. No guesswork as to how well or how much an auditor will cost. The numbers and performance are available for your review with quick and easy reference to the other cell account experience. Investment management fees and targeted returns are not a surprise, but a recognizable benchmark. Common sense tells us that results improve when you do things more than once. Speak with any captive owner and a common experience is the length of time and difficulty they encounter in finding the right service providers for their captive facility. A cell captive offers performance by service providers who have prevailed in a selection process many times over. The burden and risk of error is assumed by the cell company. Customer satisfaction is not a distant suggestion or hope, it is a repeated fact within the cell company.

Flexibility makes a cell captive work.

Insurance is a regulated business. Like any regulated business, flexibility and creativity can suffer unless regulation and marketplace ingenuity find common ground. Cell companies provide the best opportunity for reaching this common ground. Whether it is investment authority, capital and surplus requirements or loss reserve certification, a cell company is able to more quickly adopt the market's latest innovation and still satisfy its regulatory mandate. It should come as no surprise that the latest insurance capacity crisis in coastal property coverage was met by the creative use of cell companies in what has commonly become known as "Sidecars."

Maintaining the solvency of one's insurance program is everyone's primary objective when entering the self insurance marketplace. This fact does not change with cell captive programs. It is only managed more effectively through a regulatory scheme that recognizes both the capital commitment and experience of the general account or cell company owner. Because the cell company owner has satisfied a significant capital commitment in order to be licensed as a cell company, the cell owners are able to bootstrap or leverage their business plans to achieve maximum flexibility and creativity with regard to capital and surplus requirements. For example, the cell captive may be fully funded with assets and reinsurance support or alternatively, traditional tests of solvency can be applied to meet the regulatory capital and surplus requirements. Both are available capital and surplus strategies and either may prove to be the most effective approach for a cell owner to efficiently manage its risk while maintaining solvency.

The cell company also offers its cell owners financial and administrative advantages through economies of scale. As a regulated insurance company, a captive must satisfy audit, actuarial and regulatory restrictions on investments. These requirements can drive the cost of operating a captive company to a level that contradicts the objective of controlling insurance costs. A cell company, however, is able to spread these costs over many different cells or captive programs providing an economy of scale that other captives cannot. Some regulatory schemes provide further cost reduction opportunities for cell captive by relaxing overly burdensome regulations concerning actuary and auditor reports in favor of more practical and cost effective certifications. In short, the creativity and flexibility applied to your risk management strategy is enhanced in the cell captive environment where the response to overhead is focused on retaining best of breed service providers with reduced concern for runaway expense

Speed in and out of the market give cell captives the edge.

Cell captives are insurance companies that are ready and able to quickly respond to your need to establish a risk bearing facility. The cell captive submits its business plan to the proper regulatory authority prior to the cell owner opening its cell captive program. Regulatory authority is not wishful thinking but pre-approved license. Speed to market and implementation of the captive solution is unmatched with the cell company. Time is days not months. Many a grand idea is lost waiting for the wheels of regulation to move in the face of today's marketplace where change and viable solutions change 24/7. The cell captive offers you the chance to quickly implement a solution that is structured properly from a capital and insurance management perspective.

Insurance exposures do not evaporate over night. Self insurance commitments remain and continue with both expense and loss for many years after an insurance program is terminated. Cell captives enable their owners to more quickly exit from these legacy costs. This is accomplished by the cell company owner having a very good perspective to make arrangements for the assumption of legacy costs. After all, these legacy costs arise from a captive program it managed over the prior years. The cell captive's corporate structure itself is also uniquely positioned to facilitate the assumption of legacy expenses such as audit, actuarial and regulatory. These legacy expenses can be efficiently transferred to the cell owner's general account through expense management for the overall cell company. One less captive program's audit expense allocation is not a significant assumption of a cost for a cell company to overcome. Legacy costs related to insurance losses are also best managed by the cell company structure. As mentioned, the Sidecar facilities recognize this fact. New investment and risk capital is attracted and accommodated by the ease in which a cell can be opened and closed. Once again, the cell company structure allows the discussion of a solution to be about days and weeks compared to months and years under a stand- alone captive.

Who is Roundstone?

Roundstone Management, Ltd. ("Roundstone") based in Westlake, Ohio is an insurance organization focused on the development, underwriting and servicing of alternative risk products, including captives, rent-a-captives and specialty insurance programs. Roundstone offers intermediaries and buyers an expertise in the captive marketplace with an unbundled services approach utilizing the facilities of Roundstone Insurance, Ltd., a class III Bermuda reinsurer registered as a segregated account company and Companion Captive Insurance Company, a South Carolina protected cell sponsored captive insurance company. Roundstone is the only company offering cell company solutions onshore and offshore for both P&C and L&H captive programs.

Mike Schroeder is President of the Roundstone organization. Mike offers seventeen years of insurance industry management experience with responsibilities in the captive market, self insurance pools and trusts, publicly held insurance companies and the regulatory environment.