



Renting a Segregated Cell – Next Steps

What are the next steps once a company has decided to pursue renting a segregated cell from an AIG sponsored captive? The summary below will help provide guidance on the process and important considerations along the way.

Stage One: Initial Information Sharing and Discussion

The first step involves the client gathering pertinent information and sharing it with AIG's Captive Management Services group. This information includes:

- Specific goals that the client wants to achieve as well as its objectives for forming a captive program, e.g., cost, coverage, insulation from market swings, risk control incentives, focal point for risk management activities, access to risk transfer capacity (reinsurance), control over claims handling, internal smoothing of deductibles, profit, etc.
- Information regarding client's financial position, corporate structure and future strategy
- Description of current insurance program to be assumed by the cell captive, e.g., insurance requirements imposed by law and business needs, coverages, limits and retentions, insurers, premium volume and policy dates
- The client's staff designated to work with AIG over the course of the project

Subsequently, an introductory call is scheduled to review the information at a high level, answer initial questions, and determine if there is interest in moving forward with an AIG captive arrangement.

After this initial call, the client may choose to proceed with an AIG captive management engagement letter, which for an agreed upon fee covers the items listed below in Stages Two and Three.

Stage Two: Program Structuring

In this stage, the optimal structure of the captive cell program will be determined. A number of factors will be taken into account, including loss experience, risk retention appetite, and regulatory considerations. Typically the premiums and risk flowing into the cell begin with a direct policy written (fronted) by an AIG company or network partner. Information we may need to determine fronting availability and terms include the above information from Stage One, as well as:

- Number of policies required, location of policies and volume of claims activity;
- Values at risk/exposure bases by line (sums insured, payroll, sales, contract value, property values, etc.) for 5+ years
- Business growth forecasts (payroll, sales, property values, etc.) for 5+ years projected
- Five years of premium and loss history, including detailed report of losses exceeding \$50,000

After meeting the information requirements, an overview of the fronting arrangement will be obtained along with fronting fees, and terms and conditions



(e.g., collateral requirements). The program structure determination should take approximately 30 to 45 days.

Stage Three: Implementation of the Cell

After the AIG fronting arrangement is in place, the following steps remain before the captive cell is fully implemented.

- AIG's Captive Management Services will obtain the necessary regulatory approval prior to opening the cell. An executive summary is provided for submission to regulators. This executive summary includes a description of the proposed insurance program such as the types of risk, limits assumed, and form of collateral.
- The client will provide to AIG the full legal name, address and authorized signers of the cell participant. The participant is generally the same entity purchasing the direct policy from AIG and/or an affiliate of the policyholder. Captive Management Services will provide a Participant Contract for signature that defines the rights and obligations of the captive cell, the participants and the AIG sponsored captive.
- Captive Management Services will sign a Reinsurance Agreement on behalf of the cell, specific to the business being assumed. The Reinsurance Agreement is drafted by AIG's legal department on behalf of the policy issuing company(ies) and reviewed by the cell participant prior to execution.
- The cell participant will need to provide any collateral, per the terms of the Reinsurance Agreement.

Depending on the responsiveness of the parties involved, cell implementation can be a quick process.

Stage Four: Operation of the Cell

For an agreed upon annual rental fee, all regulatory requirements and administrative tasks are carried out by AIG's Captive Management Services. Our overall objective is to provide efficient, innovative, and professional service to our clients. The following describe overall operation of the cell:

- AIG's cell facilities will maintain the minimum core capital as required by the local regulator.
- AIG's cell facilities are responsible for making all of the filings required by the insurance regulator such as annual statements, audit and actuarial reports on an as-needed basis.
- AIG's cell facilities will provide an individual quarterly report to the cell participant. This report is an accounting for the entire cell's income activity including total premiums less losses and expenses. This report also provides a quarter-end position of the assets, liabilities and surplus of the cell.
- Individual cells do not receive their own audit report; however, the entire facility does receive an annual audit from an independent CPA firm.
- Each cell is treated as a separate entity from the AIG cell facility for all federal income tax purposes. The participant is responsible for the filing of any necessary tax returns and the payment of any taxes resulting from the operations and assets of its cell.



- Distributions are payable to the named participant and are eligible if remaining assets satisfy the collateral requirements agreed to, per the terms of the Reinsurance Agreement and Participant Contract.
- The annual rental fee charged to the cell is detailed in the Participant Contract. For planning purposes, a fee range of 2.5% to 4% of captive ceded premiums should be expected.
- The annual cell rental fee and any applicable premium taxes on premium ceded to the cell are the only expense items deducted from the cell's funds. AIG does not allocate other fees to the cell such as costs associated with auditors, actuaries, regulators' examinations, or other miscellaneous operations.
- A separate fronting fee will be charged when AIG is retained to provide captive fronting services. Fronting fees generally include:
 1. Program coordination and administration fees
 2. A charge for the cost of capital and credit, operational and legal risks assumed
 3. Claims handling fees
 4. Reinsurance services such as cash flow management and reporting fees

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