

CAYMAN ISLANDS.
CLEARLY BETTER BUSINESS.

FRENEMIES: A STORY OF COMPETITORS

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ONCE UPON A TIME ð

MAPLE LEAF BACKGROUND

Started in 2009 as Maple Leaf Insurance Limited

Restricted Class B License

Skilled and Assisted Nursing Facilities in 4 States (AZ; IN; IL; WI)

Primarily Started due to Increased PL Litigation in Cook County, Illinois

- Judicial Hellhole
- Nursing Home Care Act (NHCA) with Attorneys Fee Provision
- Liberal jury pool
- 4th Highest Frequency of NHCA in the United States

2010 Workers Compensation

2014 Medical Stop Loss

MAPLE LEAF BACKGROUND DATA DRIVEN RESULTS

TPA In House – Data Driven Results

“ Robust Loss Runs

“ Clinical:

- Referral Source
- Reason for Litigation Wounds: Progression, Incorrect Treatment, Infection, Missing Treatment Records
 Falls :Incorrect Assessment, Incorrect Interventions + Missing Records
- Payor Source
- Key Actors Director of Nursing; Administrator; Attending Physician; Medical Director; Wound Care Physician
- Room Number
- Public Health Citation
- Wound Rounds

“ Claims

- Mediator
- Pre Trial Judge
- Negotiated Attorney
- Negotiated Adjuster

MAPLE LEAF BACKGROUND RISK MANAGEMENT

Aggressive Risk Management/Operations Plan

- “ Weekly Calls for High Risk Facilities
- “ Medical Records Request Tracking/Trending
- “ Conversion Ratio
- “ Administrator Bonus or Penalty for Medical Records Requests
- “ Training for Current Clinical Structure
- “ Focus on Falls and Wounds

Settlement Committee Strategies

- “ Risk Management Integration (Nursing, Medical and Operations)

Started In House Defense Firm

- “ Captive; TPA; Defense Counsel all work for the Parent+

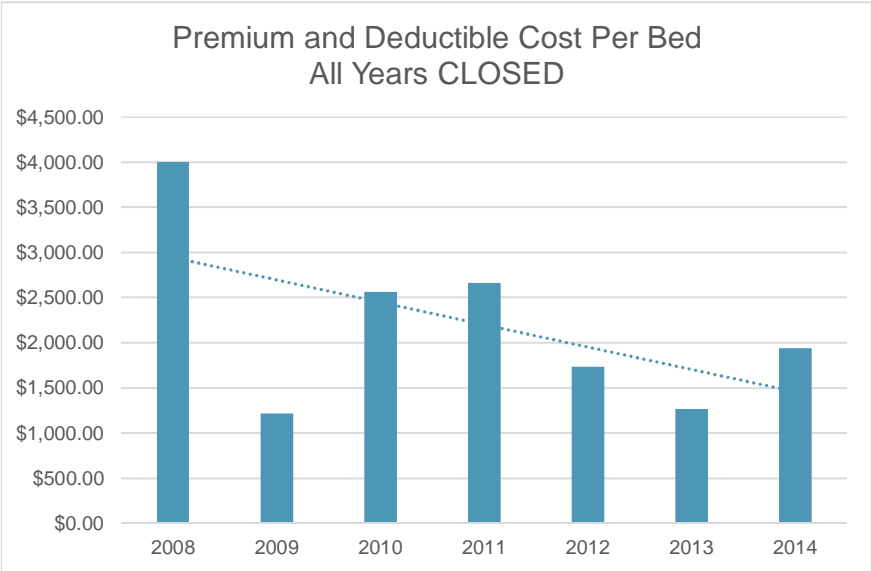
MAPLE LEAF BACKGROUND LITIGATION MANAGEMENT

Aggressive Litigation Management

- “ Insured Chronology
- “ Witness List
- “ Insured Record Management
- “ Reserves SET WITHIN 90 DAYS
- “ Mass Mediations
- “ Flat Fee Billing/Creative Billing Arrangements
- “ Monthly Defense Counsel Report

MAPLE LEAF RESULTS

49% Reduction in Premium and Deductibles



MAPLE LEAF TURNING POINT

2015 New Cayman Law

Commercial Carriers Exiting Cook County

Only Commercial Insurance Available is with Large Deductible

Alliance of Healthcare Counsel

Competitors Seeking Insurance Solutions and Risk Management

#LEGAL STUFF

ORIGIN OF PICS

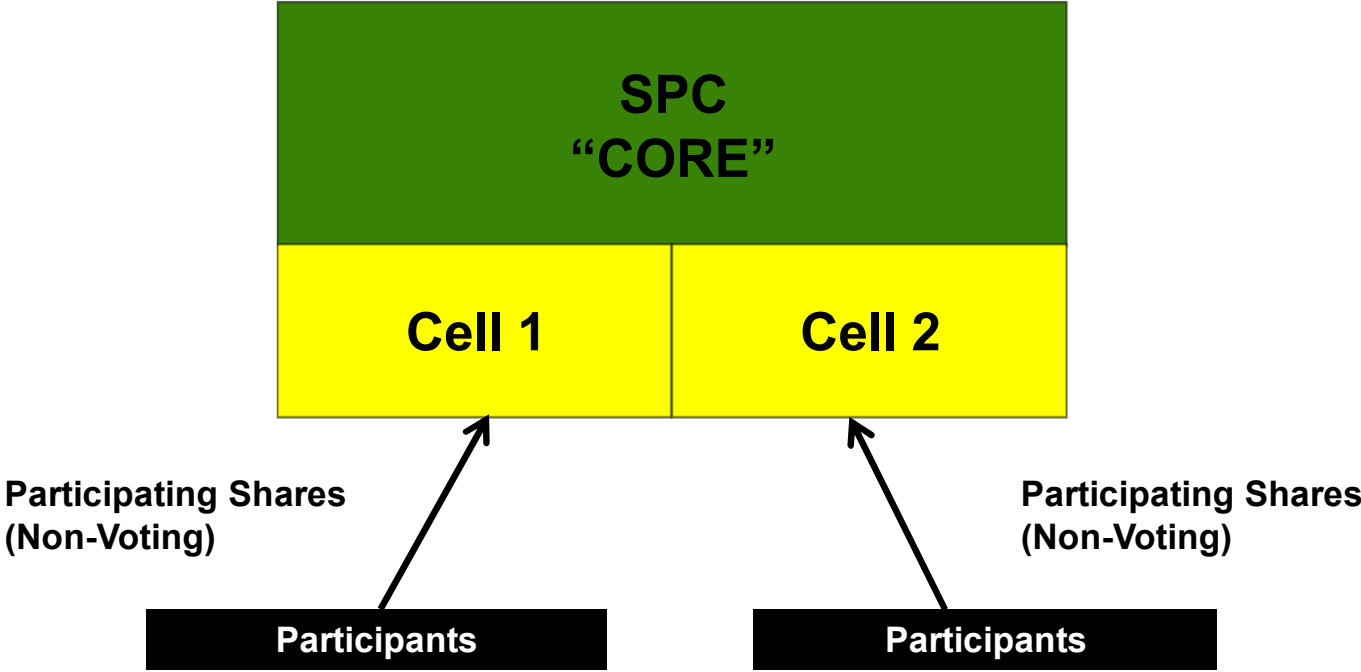
SPC is an excellent vehicle but not perfect in all respects:

- “ Cell is not a separate legal entity therefore intra-cell contracting not possible
- “ SPC board has to govern all cells
- “ Uncertain tax status of a cell

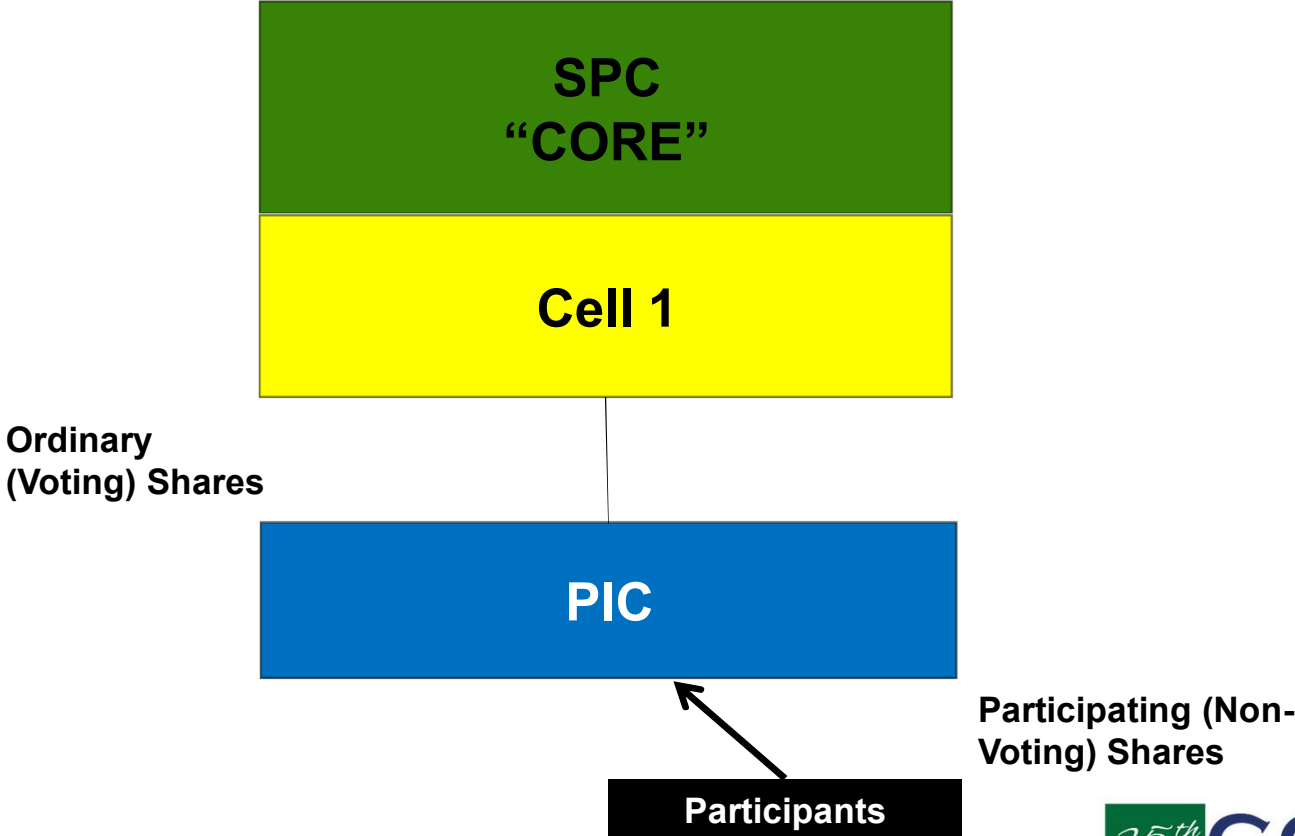
PIC overcomes these drawbacks:

- “ Some traction for incorporated cells was developing for incorporated cells generally (e.g. Vermont)
- “ Insurance (Amendment) Law and Insurance (Portfolio Insurance Companies) Regulations, 2015 .
came into force in January 2015
- “ Specific to Insurance Law (not Companies Law)

SPC WITH TWO CELLS



SPC WITH SINGLE CELL AND SINGLE PIC



FEATURES OF A PIC

- “ PIC does not require insurance licence . registers with CIMA and is regulated.
- “ PIC has its own business plan.
- “ A cell of the PIC's SPC will always be its %Controlling Relevant Insurer+. control by licensee is fundamental.
- “ No issue or transfer of voting shares without CIMA approval and no issue or transfer of more than 10% of non-voting shares without CIMA approval.
- “ Express power for PIC to contract with core, any cell of its SPC and any other PIC controlled by its SPC.

FEATURES OF A PIC (CONT'D)

- “ MCR and PCR . effectively the same as if PIC was a stand-alone licensee (but subject to CIMA discretion to modify either or both up or down).
- “ Must have %Portfolio Insurance Company+, %PIC+or %P.I.C.+ in its name.
- “ Cannot have more than one PIC per cell.
- “ PIC can be formed by a brand new cell or an existing cell.
- “ No %on behalf of+language when a PIC signs.

ADVANTAGES OF A PIC

- “ Unlike a cell, a PIC can contract with/reinsure/risk pool with another PIC, another cell of the same SPC or the core of the same SPC.
- “ With a PIC should be greater certainty of the IRS tax treatment (e.g. make its own 953(d)/831(b) tax election even if SPC or cells have not made the election).
- “ Unlike a cell, a PIC can have its own board of directors and board members do not have to be the same as the SPC board.
- “ PIC is easier for a counterparty to understand compared to a cell.
- “ Easier for a PIC to transition to a stand-alone captive. A cell would have to establish a new vehicle and go through a novation process.

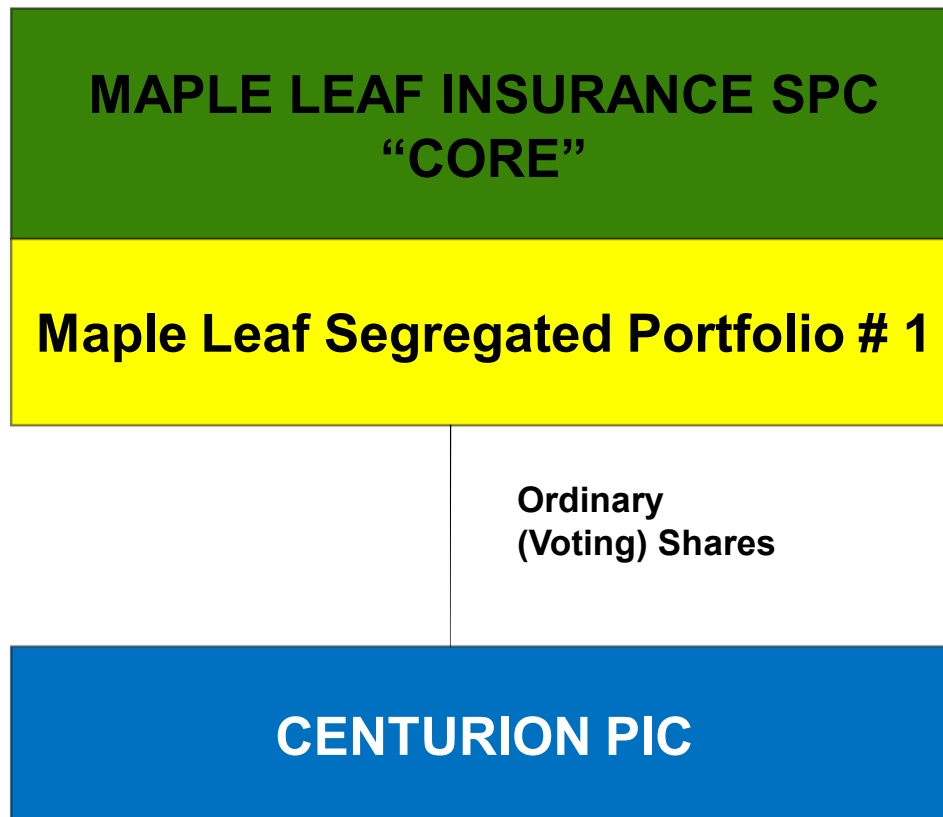
ADVANTAGES OF A PIC (CONT'D)

- “ A PIC can merge with another Cayman captive or a foreign captive. A cell cannot.
- “ A PIC can redomesticate to a foreign domicile. A cell cannot.
- “ A PIC overcomes any concerns about the untested nature of the cell structure if ever challenged in a court outside the Cayman Islands.

DISADVANTAGES OF A PIC

- “ PIC involves a registration process (but relatively straightforward).
- “ Some additional costs for a PIC . company formation (approx. US\$2,600) and CIMA fees (approx. US\$1,200 application fee and approx. US\$300 annually).
- “ Regulatory capital requirement for a PIC whereas typically a cell simply needs to be solvent on a balance sheet basis.

MAPLE LEAF INSURANCE SPC / CENTURION PIC



Participating (Non-Voting) Shares vs Ordinary (Voting) Shares

Relevant Documents:-

- " PIC Memorandum and Articles of Association
- " Business Services Agreement
- " Program Services Agreement:
 - Relationship with Insured
 - Control and composition of the Board & common risk management
 - Fees
 - Insured has financial responsibility to PIC (contractual participation vs equity participation)
- " TPA and Risk Management Services Agreement

MAPLE LEAF NEW OPPORTUNITIES

Cayman Law

- “ 2015 Maple Leaf Insurance Ltd converted to Maple Leaf SPC

In House Law Firm Became Private Law Firm

1st PIC

- “ 3 Month Implementation for Risk Management Platform
- “ Year 2 Following Risk Management Platform
- “ Reduction in %premium+
- “ Reduction in Loss Costs
- “ Deductible Flexibility

Participation Fee

Used to Off-Set Original Parentq

#ACTUARIAL WIZARDRY

FOR PROFIT VS. NOT FOR PROFIT HEALTHCARE

While many captive considerations are similar there are a number of noteworthy differences when it comes to captives supporting for profit businesses:

- “ Tax strategy is a much greater consideration
- “ Funds for initial capital are often scarce and come in different forms
- “ Appetite for investment risk is more limited
- “ Funding premiums at a higher confidence level is not the norm . accomplished more opportunistically
- “ There is no such thing as a steady state . the deal making never stops!
- “ Flexibility of captive programs and ability to tailor program to meet insureds needs makes the captive very valuable

TAX CONSIDERATIONS

Insured wants to be able to take a tax deduction for the premiums paid

Insurer (captive) wants to be able to take a tax deduction for loss reserves

What is IRS looking for?

“ Risk Transfer

- Transfer of financial risk from one party to another
- Maple Leaf's owners and insureds are substantially different

“ Risk Distribution

- Sufficient independent risks of unrelated parties be pooled
- For Maple Leaf each insured facility is independent with varying ownership structures, no single facility represents more than 10% of the overall risk

“ Risk Sharing

- Risk is considered to be shared if there is no policyholder-specific correlation between premiums paid into a captive, for example, and losses paid from the captive's reserve pool
- For Maple Leaf all facilities are in one single risk pool

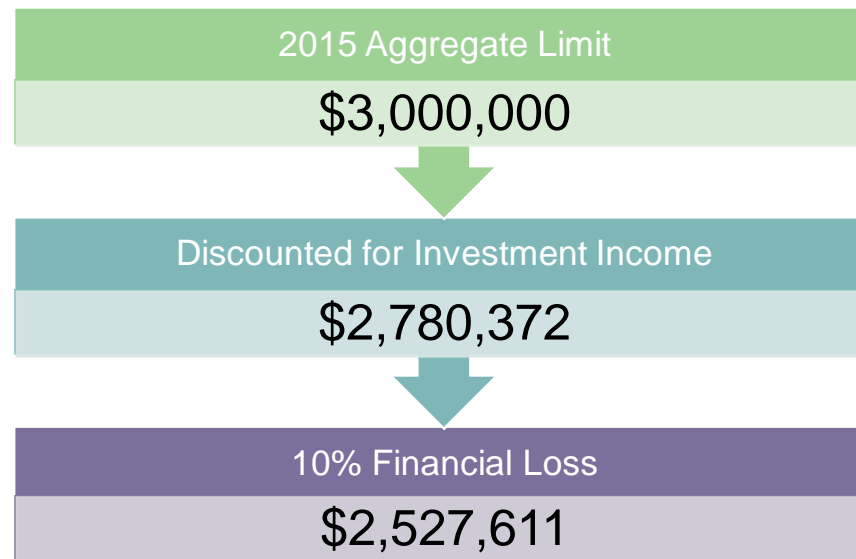
EVIDENCING RISK TRANSFER

- “ Risk transfer involves the contractual shifting of a risk from one party to another. One example is the purchase of an insurance policy, by which a specified risk of loss is passed from the policyholder to the insurer.
- “ An insurance contract with risk transfer must expose the insurer to potential financial loss. As an example, an insurance contract with an aggregate limit of coverage of \$10M and a premium of \$10M would not expose the insurer to financial loss and thus would not contain risk transfer
- “ Not only must the insurance contract show risk transfer, it must show sufficient risk transfer. How much risk transfer is enough?

The rule of thumb generally used is that the insurer must have the potential for a financial loss in excess of 10% of the premium (i.e. how much) and this must have a likelihood of occurring at least 10% of the time (i.e. how often)

- “ Financial loss must consider credit for investment income on loss reserves

HOW MUCH COULD THE CAPTIVE CHARGE?



The challenge that Maple Leaf was facing was that their expected losses were often too close to the aggregate limit . so in order to evidence sufficient risk transfer we were often forced to essentially price and back in a loss

THE CHALLENGE AND THE SOLUTION

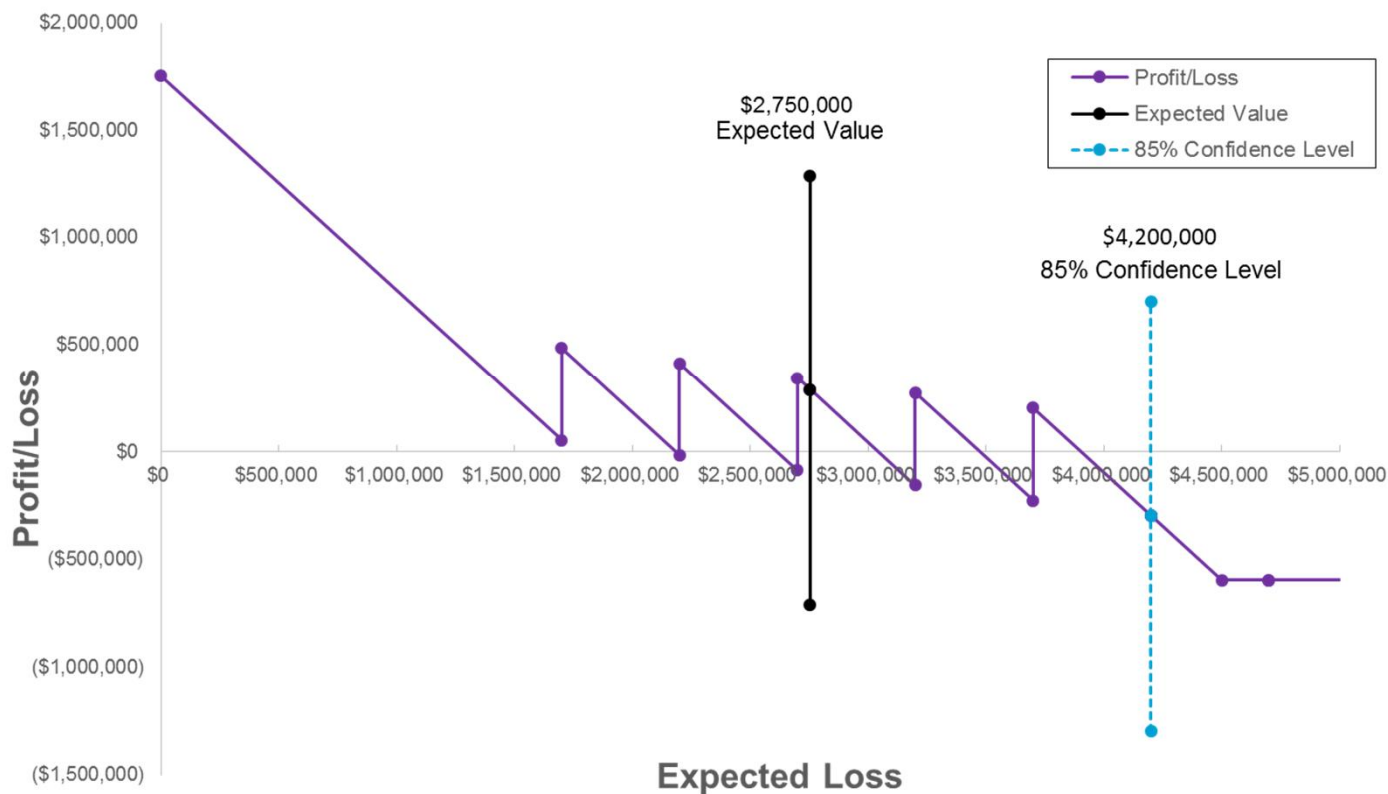
Factors contributing to the challenge:

- “ Aggregate limits set to close to expected loss levels making it difficult to balance risk transfer and profitability
- “ Increasing the aggregated opens up potential of even greater loss (bigger gap between expected value pricing and aggregate limit) also insured not fond of %increasing size of target on their back+
- “ Relatively low capitalization levels
- “ Reluctance to fund more conservatively unless actual claims activity warranted it

Solution:

- “ Set initial aggregate limit very close or even below the expected loss level and utilize aggregate reinstatements to adjust aggregate limit and premium as actual claim activity materializes
 - In many cases reinstatement is triggered before existing aggregate is exhausted
- “ Allows us to minimize up front premium while ensuring captive is financially whole
- “ Lower aggregate limits gives claims increased leverage in negotiating settlements

UNDERWRITING PROFIT/LOSS WITH AGGREGATE REINSTATEMENTS



Initial Aggregate of \$2M for premium of \$1.75M

Additional aggregate reinstatements of \$500K each for additional premium of \$430K each

First aggregate reinstatement is triggered when paid claims exceed \$1.7M and then again at each \$500K after that (i.e. \$2.2M, \$2.7M, etc.)

Aggregate reinstatements are mandatory

Aggregate reinstatements achieve risk transfer and balance cost needs of insured without exposing captive to undue financial loss

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