

MAR 11 1988

MINUTES OF THE FINANCE COMMITTEE

Meeting February 28, 1988

In accordance with the notice mailed to each member on February 10, 1988, a meeting of the Finance Committee was held on February 28, 1988 at National Headquarters, Washington, D.C. The meeting convened at 8:06 a.m., EST.

The following members were present:

Mr. Burton H. Alden	Mr. Warren K.K. Luke
Mr. H. Loy Anderson, Jr.	Ms. Dianne McKaig
Mr. William F. Andrews	Mr. George F. Moody
Mr. Gene Dyson	Ms. Kerrie Quinn
Mr. Robert G. Harbison	2nd Vice Chairman
1st Vice Chairman	Dr. James M. Rosser
Mr. Richard M. Jones	Mr. Delbert C. Staley
Mr. Todd H. Langley	Mrs. Joan B. Warren
Chairman	

Mr. Richard F. Schubert, President, Mr. Neal J. Boyle, Vice President and Chief Financial Officer, other members of the Board of Governors, and several members of the management staff, also attended the meeting.

Approval of the Minutes

The minutes of the Committee meeting held on October 25, 1987, a copy of which had been mailed to each member on December 21, 1987, were approved.

Changes to Endowment Fund Spending Policy

The Chairman briefed the Committee on some significant changes being proposed regarding income distributions from the Endowment Fund. The current regulations of the Endowment Fund stipulate that all income generated be distributed not less frequently than once per year. The Board of Governors and the Board of Trustees of the Endowment Fund have interpreted that these income distributions should consist only of interest and dividends and should exclude realized gains from sale of securities.

The present policy of distributing only dividends and interest has several negative aspects:

1. The level of income generated fluctuates with the asset mix of the fund as well as with changes in interest rates and dividends.

2. The distribution of all income leaves little opportunity for the long-term growth of the Fund.
3. The present strategy does not allow for quick readjustments in income distributions which may be required to meet the emergency needs of the Red Cross. Income adjustments achieved through changes in asset allocation may not only be untimely from a strategic asset allocation viewpoint, but also take time to affect the income distributions from the portfolio.

Mr. Langley proposed that the Red Cross adopt the total return concept for distributions from the Endowment Fund. To meet the short-term emergency needs of the organization, it was recommended that the initial spending rate be established at approximately 9% of the Fund's market value for a period of two years. The new spending rate would be implemented beginning with the March 1988 payout and would result in distributions to the national sector at an annual rate of \$15.3 million over the ensuing two years ending with the February 1990 distribution. The distribution on the \$5 million of chapter endowments would also be made at a 9% rate during this period. This would result in disbursements of realized gains of about \$10 million from the Fund during the next two years because the spending rate will exceed the dividend and interest income generated by the Fund.

Beginning in March 1990, it was proposed that the spending policy be adjusted to a level which would allow for the retention and reinvestment of some portion of the income generated by the Fund.

After a brief discussion and upon motion duly made, the Committee voted to recommend adoption by the Board of Governors of the following resolution:

"The bylaws of the Endowment Fund be changed to adopt the total return concept as follows:

Delete:

Not less frequently than once each year, the interest, income, and other earnings on securities and property held by the Trustees, less proper and reasonable expense of administration, shall be paid to the American National Red Cross and, after the receipt of such payment, the Trustees shall have no further responsibility for the distribution of such monies.

Add:

At least once each year, upon recommendation of the Finance Committee of the Board of Governors, the Investment Oversight Committee shall determine, subject to the approval of the Board of Trustees of the Endowment Fund, an appropriate amount to be distributed to the American National Red Cross and to participating chapters for the ensuing fiscal year or portions thereof. Such distributions shall be limited to the interest, income and realized gains on securities and property held by the Trustees, less proper and reasonable expense of administration. After receipt of such payments, the Trustees shall have no further responsibility for distribution of such monies."

Captive Insurance Facility

The Chairman called on Mr. Gregory L. Daniels, Director, Risk Management, to briefly explain the issues related to establishing a captive insurance company. Mr. Daniels discussed some of the struggles encountered during the recent hard insurance market and the long-term advantages of a captive insurance company. A few of the more significant benefits were highlighted:

- o Increased Stability - The captive arrangement will enable Red Cross to decrease, even further, its dependence on the transitional insurance market. Red Cross will enjoy more stable rates and a greater ability to maintain consistent coverage during downturns in the insurance industry cycles.
- o Tighter Financial Control - By-products of the captive include the establishment of separate independently-audited financial statements for insurance operations, increased management oversight, and greater discipline in insurance-reserving practices.
- o Flexibility in Coverage Design - The captive will accommodate a consolidation of all insurance funding mechanisms in one place. This not only increases the chances to obtain excess or aggregate stop loss coverage, but also gives Red Cross the ability to provide evidence of coverage (e.g., formal policies, certificates, etc.) to interested third parties.
- o Cost Savings - Although we anticipate some additional expenses due to captive operating costs (e.g., government fees, management company fees, etc.), they are more than offset by savings produced from the

consolidation of property and directors and officers liability protection with the other casualty lines of coverage.

Mr. Harbison suggested that management communicate clearly to all field units the nature of the company to ensure there are no misunderstandings regarding its domicile (Bermuda) and the purpose of the company.

After additional discussion and upon motion duly made, the Committee voted to recommend adoption by the Board of Governors of the following resolution:

- "1. That, effective July 1, 1988, a captive insurance company be formed and that it be utilized to insure the primary area or 'working layer' for each of the following lines of coverage:
 - o Workers' Compensation
 - o Automobile Liability
 - o Comprehensive General Liability
 - o Property
 - o Directors and Officers Liability
2. That the AIDS liability fund be transferred into the captive as premium which would continue to be specifically designated for paying AIDS-related claims and defense costs.
3. That a steering committee composed of five staff members, a member of the Finance Committee of the Board of Governors, and an outside volunteer insurance expert be appointed for the purpose of implementing the captive."

Fund Requirements for Services Provided by National Sector
Fiscal Year 1989 - 1990

Mr. Boyle presented the fiscal year 1989-1990 net requirements for services provided by the national sector, exclusive of blood services.

Mr. Boyle stated that as a result of productivity improvements, cost containment and cost recovery, the net fund requirement increase over the prior year has been contained at a level of .15 of one percentage point less than the projected inflation rate of 5%. One-half of the costs associated with maintenance of the CMIS National System will be cost recovered and were included in the net fund requirement. In addition, the effects of the recent realignment of national sector functions were also considered.

After discussion and upon motion duly made, the Committee voted to recommend adoption by the Board of Governors of the following resolution:

"That the net fund requirements for services provided by the national sector for the fiscal year 1989-1990 be established in the amount of \$96,980,600."

Proposed Ceiling for Fair Share Increase

The Committee reviewed a management recommendation that a ceiling for fair share increases to chapters be established at 10%. The purpose of this ceiling is to mitigate the erratic increases which sometimes occur in the computation of the Fair Share as a result of the significant changes in the factors used.

Upon motion duly made, the Committee voted to recommend adoption by the Board of Governors of the following resolution:

"That ten percent be established as the ceiling for any chapter Fair Share increase."

Use of Minority-Owned Financial Institutions

Mr. Langley indicated that an additional action item had been proposed after the agenda had been mailed. It was noted that the Red Cross currently has no policy regarding use of minority-owned financial institutions. Considering that the Red Cross is a nation-wide organization that is present in nearly every American community, it appears appropriate to establish such a policy.

After discussion and upon motion duly made, the Committee voted to recommend adoption by the Board of Governors of the following resolution:

"That the American Red Cross identify those minority-owned, U.S.-owned, federally-insured financial institutions included on the Department of Treasury/Commerce Minority Bank List and use those institutions when local disaster bank accounts are established. Funds maintained in these institutions shall not exceed the maximum limits of the federal insurance provided."

Final Report on the 1987 Fund Campaign

The Committee reviewed the final report on the 1987 fund campaign showing that \$240.4 million was raised, an increase of \$7.5 million or 3.2%. The national sector share of the total

amount raised was \$81.7 million or 34.0%. Considerable discussion occurred regarding the fact that our federated sources only increased 2.53%, not even keeping up with inflation. Mrs. Warren emphasized that community priorities must be addressed as we compete for United Way dollars and that Red Cross chapters should actively pursue available local venture capital funds for special projects.

Status of Current Year Disaster Relief Operations

The Chairman summarized a report of the status of disaster operations as of February 15, 1988 which indicated the expenditures and/or commitments for disaster activity. At present, 91.6% of the \$17.7 million total relief funds available have been committed, resulting in a balance available for current operations of \$1.5 million while 63.0% of the fiscal year has elapsed. He also noted that with the exception of three major disasters that have occurred this year, most large disasters show poor contribution support from the local community.

Mr. Langley also reviewed with the Committee a series of "what if" scenarios relative to our disaster financial status at the end of the current fiscal year. It was reported that if the final months of the year were similar to the average of the past five years our ending position, using the Disaster Revolving Fund of \$4.5 million, would be \$.5 million.

Midyear Budget Review - All Current Operations

Mr. Boyle reviewed the significant adjustments made as part of the midyear operating budget review of national sector activities. Mr. Boyle summarized the major changes in anticipated operating surplus or deficit in each of the four operating budgets: Current fund unrestricted, blood services operations, plasma services operations, and transplantation operations.

He advised that the current fund unrestricted is projected to result in a modest \$64.1 thousand surplus. Blood services operations is projected to change from a \$199.2 thousand surplus to a \$2.1 thousand surplus. Plasma services operations is projected to change from a \$6.4 million deficit to a \$3.9 million deficit. The change results primarily from new product sales and improved market conditions. Transplantation operations is projected to incur a \$1.1 million deficit, down from a \$1.7 deficit originally projected.

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National Sector Financial Position Statements

The Chairman called on Mr. Boyle to review projected June 30, 1988 year-end income and expense statements and related balance sheets of the major operating funds as summarized on a comparative basis with June 30, 1987 actual results.

Mr. Boyle highlighted significant items shown on the consolidated statements and noted the following:

(in millions)	FY 1986-87 <u>Actual</u>	FY 1987-88 <u>Projected</u>	Amount <u>Change</u>
Total Income	\$209.7	\$213.5	\$ 3.8
Total Expense	209.2	228.5	19.3
Total Fixed Assets	7.3	3.5	(3.8)
Surplus (Deficit)	<u>\$ (6.8)</u>	<u>\$(18.5)</u>	<u>\$(11.7)</u>

The resulting deficit of \$18.5 million is composed as follows: \$64.1 thousand surplus for current unrestricted operations, \$3.9 million deficit for blood and plasma services operations, \$1.1 million deficit in transplantation operations, and a deficit in current restricted operations of \$13.6 million. Mr. Boyle noted that blood services operations will absorb the initial two years of transplantation start-up costs amounting to \$2,719,620. The \$1.1 million deficit projected for fiscal 1988 will have to be funded through commercial borrowing. The restricted operations deficit represents the disbursement of foreign relief contributions.

Mr. Boyle summarized the balance sheet noting that total assets are projected at \$180.4 million less liabilities and deferred income of \$120.4 million, resulting in net assets of \$60.0 million. Investments are projected to decline as various restricted fund contributions are disbursed.

Forecast of Funds to be Raised - 1988 Campaign

Mr. Boyle reviewed with the Committee the preliminary estimate of funds to be raised from the 1988 Fund Campaign which funds the American Red Cross fiscal year 1988-1989 unrestricted operations. At present, it is estimated that \$257.8 million will be raised when the campaign closes December 31, 1988. This would be an increase of \$17.4 million or 7.3% over the previous year. The chapter sector would retain \$171.6 million, a \$12.9 million or 8.2% increase while the national sector share would be \$86.2 million, a \$4.5 million or 5.5% over the prior year. The

increase from federated campaigns was projected at 3.7% as compared to 2.5% for the 1987 campaign. Both Membership and Special Events fund raising are projected to increase at 34.0% and 58.9%, respectively.

Mr. Boyle noted that these extremely optimistic fund raising trends were not justified and were the result of a change in the reporting procedure used to gather the information. The 1988 campaign raised amounts will be adjusted for the May, 1988 Committee meeting.

Preliminary Estimate of Income and Expenditures
for Fiscal Year 1988-1989

Following the first estimate of fund campaign income, Mr. Boyle reviewed the preliminary forecast of income and expenditures for national sector operations for fiscal year 1988-1989. This forecast was adjusted not to reflect the inflated first estimate described above. (Shown in millions.)

o UNRESTRICTED

Income	\$114.38
Expense	114.35
Surplus/(Deficit)	<u>\$.03</u>

o BLOOD

Income	\$ 32.59
Expense	32.57
Surplus/(Deficit)	<u>\$.02</u>

o PLASMA

Income	\$ 96.37
Expense	92.43
Surplus/(Deficit)	<u>\$ 3.94</u>

o TRANSPLANTATION

Income	\$ 1.20
Expense	1.20
Surplus/(Deficit)	<u>-0-</u>

It was noted that the unrestricted, blood services, and transplantation budgets are projected to be in a balanced

condition. Transplantation services will be funded on a self-sustaining basis in FY 1989. In addition, the dramatic turnaround in plasma services from a deficit position in FY 1988 to a projected surplus in FY 1989 is not attributable to changes in the plasma market as much as the introduction of new products. Mr. Victor W. Schmitt, Vice President, Medical Operations, remarked that research and development efforts at the Holland Laboratory were instrumental in introducing safer, more effective products which ultimately ensure more stable fiscal operations.

Responsibilities of the Chief Financial Officer

Mr. Langley reviewed the responsibilities of the Chief Financial Officer and related organization chart. The Committee discussed responsibility #4 which read, "Establish corporate financial policies and procedures . . ."

It was suggested that more appropriate wording would be, "Implement and establish corporate financial policies and procedures for approval by the Board . . ."

Additionally, the relationship of the Audit Division to the CFO was questioned. Mr. Boyle noted the responsibility of the Audit Division to the CFO was purely administrative and that the Director of the Audit Division was operationally responsible to the Chairman of the Audit Committee. It was agreed that these relationships would be depicted appropriately in the organization chart.

Status of Tax-Exempt Financing

The Chairman called on Mr. William Rose, Director, Treasury Operations, to give a status report. Mr. Rose indicated that four chapter and regional blood services locations had taken advantage of the centralized tax-exempt financing and four other locations were considering participation for a total of approximately \$25 million. Initial interest rates on existing financing was 5.22%

Efforts to establish a tax-exempt pool of capital equipment financing to fund equipment and vehicle purchases as well as land and building financing for amounts under \$500,000 is still underway. Several obstacles in implementing the program have been encountered, including location of a tax-exempt authority willing to have funds distributed in communities beyond their jurisdiction. An update will be given at the May, 1988 Committee meeting.

The Committee adjourned at 10:15 a.m. E.S.T.

John D. Campbell
Assistant Secretary

Proposal for a Captive
Insurance Facility

As indicated in the October 1987 Finance Committee meeting, the Risk Management Division has been investigating the feasibility of establishing a Red Cross captive insurance company. Attachment 1 provides a question and answer sheet which explains the captive approach and highlights the results of our analysis. A formal consulting report has been completed by the Captive Development & Planning Division of Fred. S. James & Co. and the Executive Summary section of that report is included as Attachment 2. (A full copy of this report is available upon request.)

We believe that a captive insurance company is an appropriate alternative to our current program. A properly structured captive will provide features which would only serve to improve the risk management process at the American Red Cross. Although all of the advantages are more fully discussed in the attachments, a few of the more significant benefits are highlighted below:

- o Increased Stability - The captive arrangement will enable Red Cross to decrease, even further, its dependence on the traditional insurance market. Red Cross will enjoy more stable rates and a greater ability to maintain consistent coverage during downturns in the insurance industry cycles.
- o Tighter Financial Control - By-products of the captive include the establishment of separate independently audited financial statements for insurance operations, increased management oversight and greater discipline in insurance reserving practices.
- o Flexibility in Coverage Design - The captive will accommodate a consolidation of all insurance funding mechanisms in one place. Risks such as AIDS and pollution liability which are currently self-insured and separately funded, can now be placed in the same primary funding mechanism. This not only increases our chances to obtain excess or aggregate stop loss coverage but also gives us the ability to provide evidence of coverage (e.g., formal policies, certificates, etc.) to interested third parties.
- o Cost Savings - Although we anticipate some additional expenses due to captive operating costs (e.g., government fees, management company fees, etc.), they are more than offset by savings produced from the consolidation of property and directors and officers liability protection with the other casualty lines of coverage. The annual cost savings are estimated at well over \$200,000 when compared to the current program.

Therefore, it is requested that the Finance Committee adopt the following recommendations:

- 1) That, effective July 1, 1988, a captive insurance company be formed as outlined in Attachments 1 and 2 and that it be utilized to insure the primary area or "working layer" for each of the following lines of coverage:
 - o Workers' Compensation
 - o Automobile Liability
 - o Comprehensive General Liability
 - o Property
 - o Directors and Officers Liability
- 2) That the AIDS liability fund be transferred into the captive as premium which would continue to be specifically designated for paying AIDS-related claims and defense costs.
- 3) That a steering committee composed of five staff members and a member of the Finance Committee of the Board of Governors be appointed for the purpose of implementing the methodology outlined in the consulting report. Following are the suggested members of the steering committee and their areas of responsibility:

Member of the Finance Committee	- Oversight
Mr. Boyle	- Chairman
Mr. Richards	- Legal/Executive Action
Mr. Rose	- Cash Management/Investment
Mr. Campbell	- Financial Reporting/Audit
Mr. Daniels	- Risk Management

The steering committee will eventually form the nucleus of the captive's Board of Directors. The board will be expanded, however, to include at least two additional members who will represent interests of Red Cross operations.

Information contained in this attachment is provided in a series of twelve questions and answers and is intended to provide a bridge between the technical consulting report and the proposals relating to formation of a captive insurance company.

1. What is a captive insurance company?

A captive insurance company is a corporation formed primarily to insure or reinsure the risks of one corporate parent, or a number of similar corporations. These corporations may often be related financially (e.g., trade associations or franchise groups).

Therefore, a captive can be a wholly-owned subsidiary of a corporation; an insurance company owned by several companies joined together to pool their risks, or a risk retention group, which is a special interest, multi-owner insurer whose members have similar or related liability exposures. Basically, the captive is a loss-retention vehicle for funding the losses of its parent owner or owners.

In the case of the American Red Cross, a substantial risk pool already exists and proposed captive insurance activity would be limited to only those risks created by parent (Red Cross) operations. The proposed captive would therefore be a wholly-owned subsidiary of the American Red Cross.

2. How would the proposed captive insurance company be structured and what insurance coverages would it provide?

It is anticipated that the captive would be utilized to provide insurance coverage on both a direct and an indirect (reinsurance) basis. When providing coverage on a direct basis, premium dollars would flow directly to the captive insurance company and the captive would issue the insurance policy in its own name directly to the named insured. This arrangement is fairly simple and is appropriate for certain exposures.

However, for other exposures (e.g., workers' compensation), it is often more practical from an administrative standpoint to utilize the captive in a reinsurance capacity. Under this arrangement, exposures and related premium are ceded to the captive by an insurance company (e.g., American International Group--AIG) who has agreed to act as a

"fronting" carrier. The insurance company issues a primary policy with first dollar coverage up to policy limits of liability (e.g., \$5,000,000 per occurrence) and the captive reinsures the insurance company for all losses of its parent (i.e., the American Red Cross) up to a pre-determined retention level (e.g., \$1,000,000 per occurrence). Under this arrangement, AIG would actually provide \$4,000,000 of excess coverage above the \$1,000,000 being retained by the captive.

The utilization of an admitted insurance company in this fashion facilitates compliance with a myriad of state insurance requirements.

Whether the captive is utilized in a direct or reinsurance capacity, it is proposed as an alternative only for the current or "working layer" of our insurance program. Excess and umbrella coverage can be arranged above the captive loss retention levels and related services (e.g., claims handling, engineering, actuarial, etc.) can be procured from independent sources. A diagram of the proposed captive funding structure is shown in Figure 1.

The table below lists the proposed coverages, methodology and retention levels funded through the captive arrangement:

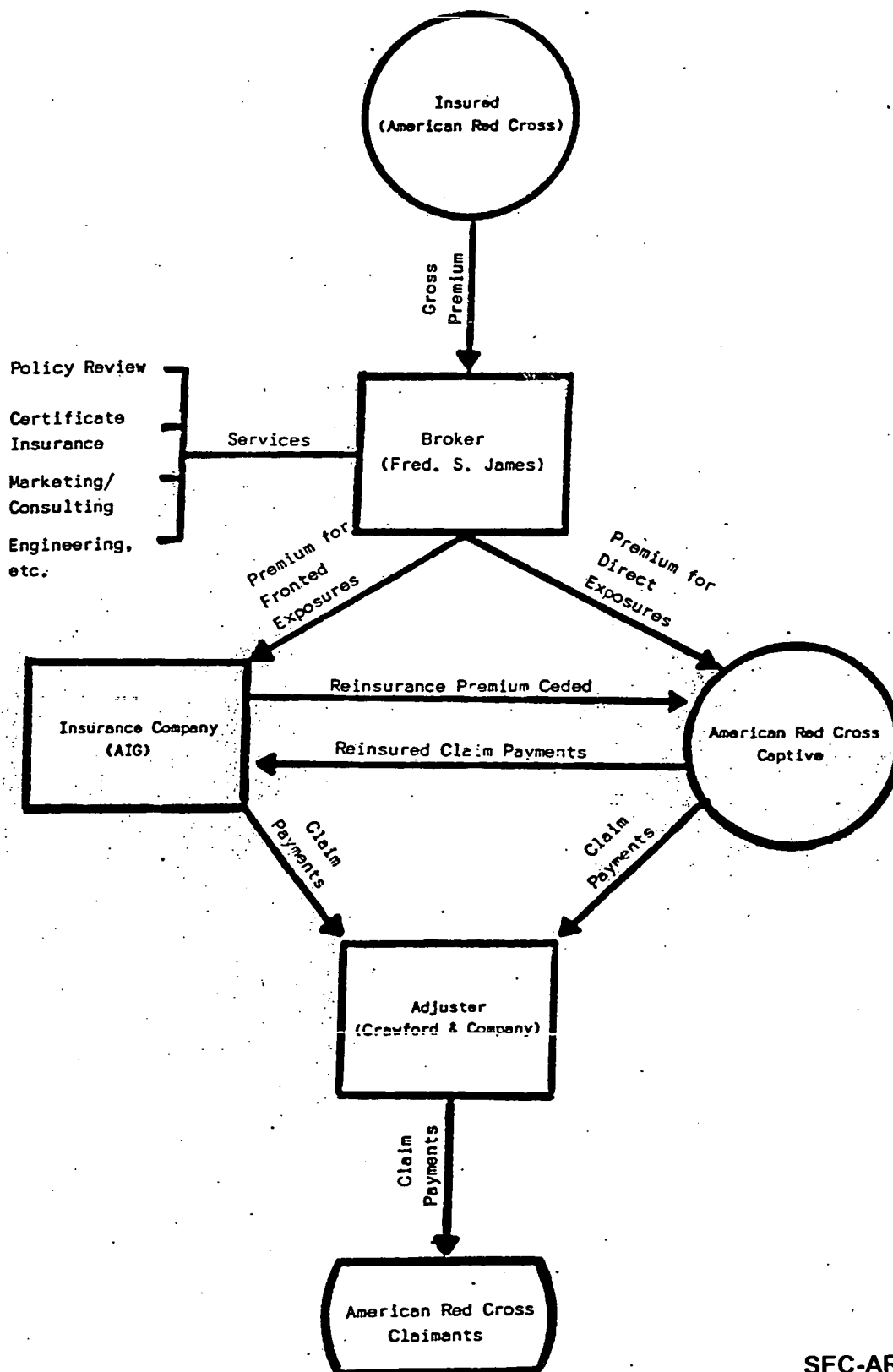
<u>Lines of Coverage</u>	<u>Type of Insurance Provided by Captive</u>	<u>Captive Retention Level</u>
Casualty:		
Workers' Compensation	Reinsurance	\$1,000,000/Occurrence
Automobile	Reinsurance	\$1,000,000/Occurrence
General Liability	Direct	\$1,000,000/Occurrence
Property	Reinsurance	\$ 250,000/Occurrence \$1,000,000 Annual Aggregate
Directors & Officers Liability	Direct	\$1,000,000/Occurrence

3. What advantages does a captive offer?

Over the years, numerous arguments have been set forth by proponents of captive insurance companies regarding the benefits to be gained by their use.

The motives may vary from company to company, but they all have the common goals of greater stability and greater management control over the organization's resources. While insurance markets can fluctuate drastically, captives charge more predictable premiums. Consultants typically list the following as long-term advantages:

Figure 1
Captive Funding Structure



- o Ability to handle exposures for which coverage is either unaffordable or unavailable in the traditional insurance market place
- o Lower administrative costs than insurers typically incur
- o Greater access to reinsurance markets and lower costs of excess coverage
- o Ability to structure tailor-made programs geared to the parent's needs
- o Ability to provide broader terms of coverage
- o Greater control of claim reserves
- o Maintenance of effective cash flow
- o Ability to recapture a portion of the premiums in excess of predictable losses

4. Is it realistic to expect that any of the above benefits will accrue to the American Red Cross?

Yes. In light of Red Cross's own experience, it might be useful to reduce the above list somewhat by thinking of the captive's goals in terms of the four "C's"--Control, Coverage, Capacity and Cash Flow. In recent years, the Red Cross organization has been subjected to insurer practices which, at best could be characterized as arbitrary, and to vagaries of the underwriting cycle which have been well beyond our control. Examples of fall out from the recent hard market include:

- o Loss of coverage for liability related to AIDS
- o Reluctance of primary markets to underwrite any exposures related to blood and/or transplantation services and/or constant threats of complete loss of future coverage
- o Forced conversion of liability coverage to a claims-made form from the traditional occurrence form
- o Loss of all coverage for pollution exposures
- o Loss of all coverage for defense costs

- o More restrictive terms of coverage for directors and officers liability and personal injury claims (e.g., wrongful termination claims)
- o Unreasonably high premium rates for excess liability, property, and directors and officers liability coverages

Through the proposed captive arrangement, it is anticipated that the primary insurance program of the American Red Cross would achieve the following:

- o Ability to maintain a disciplined funding mechanism for AIDS liability and an ability to generate policies and certificates evidencing coverage
- o Ability to maintain (write back in) better coverage terms for:
 - Pollution
 - Blood and Transplantation Services
 - Legal Expenses
 - Wrongful Termination
 - All forms of personal injury
 - Occurrence based coverage where appropriate
- o Improved premium rates for excess liability, property insurance, and directors and officers liability coverage
- o Greater overall stability and independence from insurance market cycles
- o Better and easier access to reinsurance markets

5. What are the financial implications for the Red Cross corporation?

The projected costs of the captive on an ongoing basis will be slightly higher for the casualty (i.e., workers' compensation, auto and general liability) lines of coverage, increasing by less than 1% or by approximately \$93,500. This increase is almost entirely due to the estimated captive operating expenses which are not encountered under the current program. However, savings of approximately \$301,000 are achieved when the property and directors and officers liability coverages are consolidated into the captive, producing overall net savings of approximately \$207,000.

Given the proposed structure of the captive, a capitalization level of \$10,000,000 has been recommended. It has further been recommended that 1/2 of this amount be provided to the captive in cash and 1/2 be provided on the basis of a letter of credit. The capitalization is not an expense item and the Red Cross would continue to receive the benefit of related investment earnings through the captive.

6. How does the captive mechanism affect current reserving practices at Red Cross?

Since 1984, the casualty loss reserves have been reviewed annually by independent actuaries and adjustments have been made according to their recommendations. This procedure was implemented to assure that reserves reflected on the Red Cross financial statements are adequate to pay all open and pending claims, as well as any claims which have been incurred but not reported. With the implementation of a captive, this procedure would continue with even greater regularity but would be contained within the captive operations themselves. Independent actuarial services would still be utilized to develop reserves and these reserves would be reflected on the captive's own audited financial statements. Ultimately these statements would be consolidated with those of other Red Cross operations for financial reporting purposes.

7. What administrative problems do you anticipate and what are the implications for chapters and blood centers?

The captive would create no greater administrative burden than the current program. With regard to the majority of exposures faced by the American Red Cross, the captive mechanism would streamline and formalize funding procedures that are already in place.

Decisions made during the last property and casualty renewal process should facilitate a smooth transition. A traditional insurance market (Travelers) was replaced with more flexible carriers (American International Group--AIG) who could provide both "fronting" as well as true risk transfer for either the current program or the proposed captive. Recognizing the need to assume higher amounts of risk in the future, loss retentions were raised to levels which are consistent with the proposed captive structure. In addition, a reputable independent claims adjusting facility (Crawford & Company) was hired to provide a full range of claims handling services.

As a result, converting the current program to a captive arrangement would entail no interruption of the risk management process. In fact, loss control efforts, premium allocation and loss reserving practices should not only continue, but should be characterized by an even higher degree of discipline within the captive structure (e.g., through quarterly financial statements, separate management structure, periodic Board of Directors meetings, etc.).

From the chapter and blood center point of view, nothing changes. Claim submission procedures, loss control efforts and premium allocation methodology are unaffected.

8. With recent signs that the insurance market is softening, is the timing for establishing a captive appropriate?

Even though we are witnessing softening rates and additional sources of underwriting capacity, we cannot allow these developments to entice us to adopt a status quo attitude. Newly developed capacity disappears quickly in a hardening market and consultants frequently warn that a hard market is probably not the best time to establish a captive. Leverage in dealing with reinsurers is often forfeited contributing to already higher rates and higher first year expenses for a captive.

Moreover, captives are not short term solutions. A successful captive is one that is nurtured over a long period of time, so that its financial strength grows and so that it can provide the needed stability when the insurance industry plunges into one of its periodic downturns. Therefore, we believe that the proposed timing is appropriate.

9. Will the utilization of a captive insurance company increase the level of risk being assumed by the Red Cross corporation?

Overall, the risk taking position of the Red Cross should not be significantly affected. Some of the risks which are to be handled by the proposed captive are currently self-insured (e.g., pollution, AIDS, legal fees) and the organization is already at risk for 100% of claim related costs. The loss retention levels for the majority of the exposures that are currently insured will not increase. In fact, there is a chance that the total risk being assumed will decrease or at least be limited through ~~better access to reinsurance markets who can provide aggregate stop loss protection.~~

10. How would the AIDS liability reserve be handled?

The existing ~~AIDS liability fund balance~~ would be ~~utilized as premium to procure insurance coverage from the captive.~~ Future AIDS liability insurance assessments collected from the blood centers would also flow into the captive building its financial capacity to pay AIDS related-claims and defense costs.

From the standpoint of the blood centers, nothing really changes. ~~Reserve monies would still be collected monthly and centrally managed at national headquarters in a "designated fund."~~ However, this designated fund would now be transferred to the captive and reflected on its financial statements.

Although on the surface it may appear that we are merely formalizing a procedure that already exists, we are accomplishing another more significant result. ~~With the AIDS premium flowing into the captive, the Red Cross now has the ability to more easily satisfy third parties (e.g., lending institutions, hospitals, etc.) that the AIDS exposure is addressed on a more disciplined basis.~~ Rather than simply maintaining a "self-insured reserve," ~~the captive would produce a formal insurance policy and could issue certificates providing evidence of insurance with predetermined limits.~~ Further, if and when excess or aggregate stop loss capacity develops in the traditional market, it would be easier to procure as reinsurance for the captive than as excess over a "self-insured reserve."

11. Where will the proposed captive insurance company be located and how was this location selected?

~~Bermuda~~ is the recommended location or domicile for the captive insurance company. At least ten different domiciles were initially considered comparing each across a wide range of factors. Reasons that Bermuda was selected include the fact that it is the ~~oldest captive domicile~~; it boasts of a ~~very strong infrastructure~~ for support services and is currently the home of well over 1,000 captive insurance companies. "Its ~~reinsurance network is very extensive~~ and it can easily access worldwide potential markets. Captives formed in Bermuda are ~~unencumbered by regulatory agencies~~ and enjoy total ~~freedom in the areas of rates and forms, investment and exchange control.~~ In addition, modern telephone and telex links exist permitting instant communications worldwide and the island is serviced by regular airline schedules to principal U.S. cities as well as Canada and London."*

As an example of alternative domiciles, the island of Barbados was also considered. "The main advantage that Barbados enjoys over Bermuda is the tax treaty with the United States which, in summary, eliminates the imposition of the Federal Excise Tax typically levied on offshore captives. However, it is our understanding that ~~since the American Red Cross is a federally chartered organization, an exemption from the tax would be claimed in Bermuda, as well.~~ Therefore, the case for the Barbados domicile became a moot point."*

Several on-shore domiciles were also explored. Of all domestic locations, "Vermont has the most favorable legislation and openly encourages captive formation; however it is a relatively new jurisdiction and does not possess as sophisticated captive support services as Bermuda does. Captives domiciled in Vermont are liable for a state premium tax ranging from .8% on direct premiums to .3% on reinsurance premiums. Although subject to a nominal government fee, ~~captives based in Bermuda are not subject to a similar state premium tax.~~"*

* Quotations from page 4 of the consulting report prepared by Fred. S. James & Co., Inc., Captive Development & Planning Division

12. Why has July 1, 1988 been chosen as the implementation date?

This date is not only the beginning of our fiscal year but also the date upon which most current insurance policies expire. It also allows sufficient time to employ the step by step methodology which has been recommended in the consulting report.

I. Executive Summary

The purpose of this proposal is to recommend that the American Red Cross form a captive insurance company (a wholly-owned insurance subsidiary) to insure its fire and allied perils insurance, general and automobile liability insurance, workers compensation, and directors and officers liability insurance. After an exhaustive examination of several potential domiciles, including both domestic and off-shore jurisdictions, we recommend that the proposed American Red Cross captive be domiciled in Bermuda.

Forming a captive insurance company is essentially a self-retention alternative. It is one of several methods by which a corporation can fund a portion of the risk it can not reasonably transfer, by virtue of reduced capacity or excessive pricing in the traditional insurance marketplace. Therefore, the corporation must retain the exposure. It is important to recognize that a complete transfer of risk is no longer economically feasible for the American Red Cross and that some measure of self-retention through a captive insurance company should produce an improved economic cost over the long term.

The formation of a captive insurance company is a decision which involves the formal transfer of insurance from the traditional insurance marketplace to an insurance subsidiary. The motives vary for each corporation, however the most common reasons are as follows:

- 1) To recapture premiums in excess of the predictable losses.
- 2) To obtain control over the claim reserves.
- 3) To control cash flow.
- 4) To gain access to worldwide reinsurance markets.
- 5) To insure the unusual or uninsurable exposures.

For forty-plus years prior to 1987, the American Red Cross was insured through The Travelers Insurance Company. As a result of the restricted renewal conditions, essentially through reduced capacity, exclusion of certain required coverages, and increased premium costs, the account was moved to the American International Group. The Travelers program clearly demonstrated the lack of control over the program by the American Red Cross. Insurance market swings, not necessarily the American Red Cross loss experience is controlling the cost and availability of coverage.

This report is based upon the evaluation of various captive insurance/reinsurance programs. We have analyzed several possible captive structures at various retention levels enabling us to:

- 1) explore premium costs given the coverage provided and the predicted losses; and
- 2) analyze the conceptual financial structure of the proposed captive insurer/reinsurer.

The basis of the analysis are the pro-forma financial statements which are included in the financial comparison section. Here is a summary of the retained earnings as respects the casualty program only based upon a Bermuda domicile subject to a per loss retention of \$1.0 million:

<u>Policy Year</u>	<u>Retained Earnings</u>
1988	\$ 195,000
1989	\$ 803,000
1990	\$ 1,638,000
1991	\$ 2,668,000
1992	\$ 3,863,000

Given the loss estimates as provided by the Fred. S. James & Co., Inc. Risk Management Consulting Group and the indications of the program expenses by the American International Group, the total premium for a captive arrangement for the casualty program is \$11,664,010. As compared to the existing insured program premium of \$11,570,474, this represents an increase of \$93,536.

The increase in the total casualty premium of \$93,536 is more than offset by the projected savings of \$250,000 in the property insurance program and \$51,000 savings in the directors and officers liability insurance program.

In summary, the proposed captive for the American Red Cross can provide a long-term stable insurance alternative with significant coverage and cost benefits, currently unavailable in the traditional insurance marketplace.

To Mr. Boyle Date January 20, 1988

From Mr. Daniels Subject Captive Insurance Company Proposal

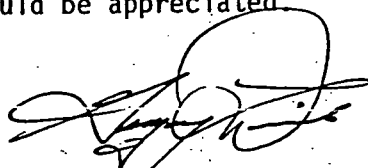
Enclosed for your review and approval are the materials we have developed for the Finance Committee meeting in February. They consist of the following:

- o The formal Proposal for a Captive Insurance Facility (i.e., Agenda Item 4)
- o Attachment 1 to Agenda Item 4 which presents information pertaining to the captive alternative in question and answer format.
- o Attachment 2 which is the Executive Summary section of the consulting report prepared by the Captive Development & Planning Division of Fred. S. James & Co.

Although not labelled as a draft, the agenda item can be revised as you deem it necessary.

I have also enclosed a preliminary draft of the James report for your review. The report is preliminary in the sense that the appendices, which number 40 to 50 pages, have not yet been included. Schedules contained in the appendices consist of pro forma captive financial statements under a variety of alternative scenarios.

Your comments on the enclosures would be appreciated.



Gregory L. Daniels
Director
Risk Management Division

FORM NO. 1a



THE COMPANIES ACT 1981

CONSENT

Pursuant to section 6 (1)

In exercise of the powers conferred upon him by section 6 (1) of the Companies Act 1981 the Minister of Finance hereby gives his consent to

BOARDMAN INDEMNITY LTD.

to be registered as a ~~xxxxx~~ exempted Company under the Companies Act 1981 subject to the provisions of the said Act.

Dated this

25th day of

19 82

Minister of Finance

2

FORM NO. 2



THE COMPANIES ACT 1981
**MEMORANDUM OF ASSOCIATION OF
 COMPANY LIMITED BY SHARES**
 (Section 7(1) and (2))
MEMORANDUM OF ASSOCIATION
 OF

.....
 BOARDMAN INDEMNITY LTD.

(hereinafter referred to as "the Company")

1. The liability of the members of the Company is limited to the amount (if any) for the same being unpaid on the shares respectively held by them.
2. We, the undersigned, namely,

NAME	ADDRESS	BERMUDIAN STATUS (Yes/No)	NATIONALITY	NUMBER OF SHARES SUBSCRIBED
Sir Bayard Dill	Clarendon House Church Street Hamilton, Bermuda	Yes	British	One share
J.M. Sharpe	as above	Yes	British	One share
J.C.R. Collis	as above	Yes	British	One share

SFC-ARC-D000510

do hereby respectively agree to take such number of shares of the Company as may be allotted to us respectively by the provisional directors of the Company, not exceeding the number of shares for which we have respectively subscribed, and to satisfy such calls as may be made by the directors, provisional directors or promoters of the Company in respect of the shares allotted to us respectively.

3

3. The Company is to be an exempted ~~stock~~ Company as defined by the Companies Act 1981.

4. The Company has power to hold land situated in Bermuda not exceeding in all, including the following parcels -

nil

5. The Company ~~proposes~~/does not propose* to carry on business in Bermuda. Except under the exceptions of Section 129(1)(e) of the Companies Act 1981 and its objects.

6. The authorised share capital of the Company is \$ US 10,000,000.00 divided into shares of US \$1.00 each. The minimum subscribed share capital of the Company is \$ US 120,000.00 fully paid

7. The objects for which the Company is formed and incorporated are -

1) as set out in paragraphs (a) to (n) and (p) to (t) inclusive of the Second Schedule to the Companies Act 1981.

8. Powers of the Company

1) the company shall not have the power set out in paragraph 1 of the First Schedule to the Companies Act 1981.

SFC-ARC-D000511

*Delete as applicable.

4

Signed by each subscriber in the presence of at least one witness attesting the signature there of -

SWBD *C. S. Dill*

AWOS

JMS *[Signature]*

AWOS

JCRC *[Signature]*

AWOS

(Subscribers)

(Witnesses)

SFC-ARC-D000512

SUBSCRIBED this 12th day of May 19 88

5

STAMP DUTY (To be affixed)

SFC-ARC-D000513

Bermuda The Insurance Act 1978 Certificate Of Registration

BOARDMAN INDEMNITY LTD.
Global House
Church Street
Hamilton

Whereas:

The Minister of Finance has directed the Registrar of Companies, pursuant to Section 13(1) of the Insurance Act 1978, I

A. VERBENA DANIELS

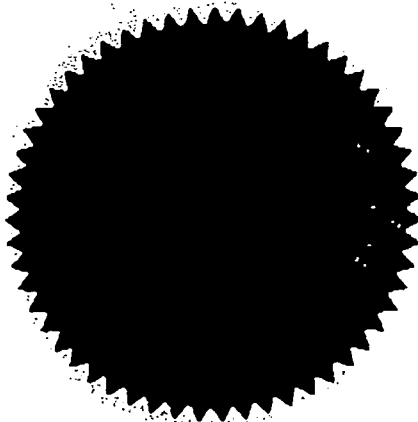
Registrar of Companies do hereby certify the above named is duly registered as

AN INSURER

in terms of Section 4 of the said Insurance Act 1978 on the date below written and authorise to carry on business in that capacity subject to the provisions of the said Act and the conditions set out in Schedule 1 hereto.

Given under my hand and seal
this 1st day of JULY 1988.

(Verbena Daniels)
Registrar of Companies



7

SCHEDULE ICONDITIONS

1. The Insurer shall, at all times in and during the course of each financial year it carries on insurance business meet, and maintain the relevant solvency margin(s), liquidity and other ratios applicable by law thereto.
2. The Insurer shall not, without obtaining the prior written approval of the Minister of Finance, write any "long-term business", as such expression is understood in the Insurance Act.
3. The Minister reserves the right to impose any further condition(s), or add, delete, modify or amend any conditions(s) imposed, giving seven (7) days notice thereof to the person so registered.


Registrar of Companies

FORM NO. 6



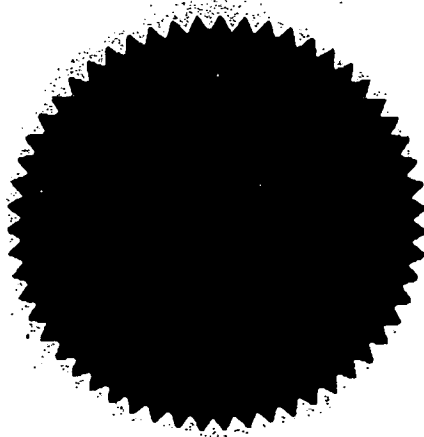
CERTIFICATE OF INCORPORATION

I hereby in accordance with the provisions of section 14 of the Companies Act, 1981, issue this Certificate of Incorporation and do certify that on the 26th day of May 19 88

BOARDMAN INDEMNITY LTD.

was registered by me in the Register maintained by me under the provisions of the said section and that the status of the said company is that of a ~~local~~/exempted company.

Given under my hand this 26th day of May 19 88



[Handwritten Signature]
for Acting Registrar of Companies



THE EXEMPTED UNDERTAKINGS
TAX PROTECTION ACT, 1966

ASSURANCE

BY VIRTUE of the powers conferred upon him by section 2 of the above Act, the Minister of Finance on the application made by the undertaking below mentioned hereby grants to that Undertaking an assurance that, in the event of there being enacted in these Islands any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to

BOARDMAN INDEMNITY LTD.

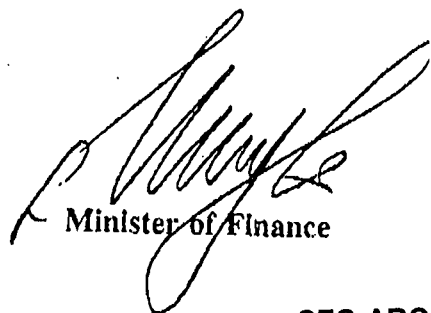
(herein referred to as "the Undertaking") or to any of its operations or the shares, debentures or other obligations of the said Undertaking:

PROVIDED THAT this assurance shall not be construed so as to

- (i) prevent the application of any such tax or duty to such persons as are ordinarily resident in these Islands;
- (ii) prevent the application of any tax payable in accordance with the provisions of the Land Tax Act, 1967 or otherwise payable in relation to the land leased to let to the said Undertaking.

THIS ASSURANCE shall be of effect until the twenty-eighth day of March, 2006.

Given under my hand this 1st day of JULY 19 88.


Minister of Finance

SFC-ARC-D000517

To Mr. Richards

Date June 1, 1988

From Mr. Daniels

Subject Captive Activation Documents

I have attached copies of the documents that we discussed this morning concerning activation of the captive. The memorandum from Conyers, Dill & Pearman is self-explanatory and the documents seem to call for our signatures only. You will note that the blank spaces for the dates should not be filled in.

If you see no problems, I will provide the originals for signature by the captive's initial board members at our meeting on Monday afternoon.

You will note that the captive's name has undergone one final modification: the word "Assurance" has been replaced by the word "Indemnity". Apparently the former term is typically used in Bermuda to denote a company that underwrites "long term" (i.e., life) insurance. The disclosure requirements for such a company are much different during the incorporation process. In order to avoid confusion on the part of regulators, the name ~~was~~ changed prior to filing the application and incorporation forms.

Please advise if you have any questions or comments.



Gregory L. Daniels
Director
Risk Management Division

attachment

cc: Mr. Boyle



National Headquarters
Washington, DC 20006

May 12, 1988

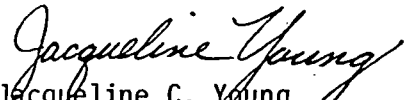
Subject: Formation of Captive Insurance Company
American Red Cross

Dear Miss Coye:

Enclosed is the pre-incorporation information form, application and business plan for filing and formation of the American Red Cross captive insurance company.

Also enclosed is a check made out to Conyers, Dill & Pearman, for \$29,550 for filing and registration fees.

Sincerely,


Jacqueline C. Young
Associate Risk Manager
Risk Management Division

Miss May Coye
Manager
Incorporations Department
Conyers, Dill & Pearman
Clarendon House, 2 Church Street West
Hamilton, Bermuda HM II

cc: Warren Sproule

Enclosures

SFC-ARC-D000519

American Red Cross

THE RIGGS NATIONAL BANK 153
WASHINGTON, D.C. 540

146815

DATE	CHECK NUMBER
5/12/88	146815
--- CHECK VOID 180 DAYS AFTER ABOVE DATE	

PAY *****29550 DOLLARS AND 00 CENTS

AMOUNT
\$29550.00

PAY TO THE
ORDER OF

CONYERS, DILL & PEARMAN
CLARENDON HOUSE
PO BOX HM 391
HAMILTON BERMUDA

Neal J. Boyle
ASST. TREASURER

⑈ 146815 ⑆ ⑆ 054000030 ⑆ ⑆ 0109000824 ⑆ ⑆



BERMUDA

PRE-INCORPORATION INFORMATION FORM

To be filed with Forms C-1 and C-2
by proposed insurers.

1. State the name of the Company.
Boardman Indemnity Ltd.
2. State the full address of —
- (a) the registered office of the Company in Bermuda.
Conyers, Dill & Pearman, Clarendon House,
P. O. Box HM 391, Hamilton, Bermuda HM BX
- (b) the principal office of the Company in Bermuda.
James (Bermuda) Ltd., Global House, Church Street
Hamilton, Bermuda HM JX
- (c) the registered office and the principal business address abroad (in case of company incorporated abroad).
Not Applicable
- 3.a State date and place of incorporation.
Date: To be determined - but prior to July 1, 1988
Place: Bermuda
- 3.b State the basic characteristics of the Company by ticking the appropriate box under (i) and (ii).
- | | | |
|------|-----------------------------|-------------------------------------|
| (i) | Company organised by shares | <input checked="" type="checkbox"/> |
| | Mutual Company | <input type="checkbox"/> |
| (ii) | Exempted Company | <input checked="" type="checkbox"/> |
| | Permit Company | <input type="checkbox"/> |
- 3.c (i) State the amount of the issued and paid-up capital at present, and the date paid in.
\$10,000,000 June 27, 1988
- (ii) Has the whole of the paid-up capital been subscribed in cash? If not, give full details.
Yes

4.a Will the Company be writing unrelated risks (i.e. risks of persons who, apart from the insurance contract itself, have no connection or association with the Company).

(i) as a direct insurer No

(ii) as a reinsurer No

4.b If 4.a (i) and 4.a (ii) are both answered in the negative, explain the nature of the connection or association that exists between the Company and those persons whose risks the Company intends writing either directly or as a reinsurer.

Company insures only risks of the American Red Cross and its local chapters.

4.c State the category of insurance business which the insurer proposes to write (i.e. general business only, long-term business only or both general and long-term business).

General Business only

4.d State the class or classes (e.g. property, casualty, marine, aviation) of general insurance business which the Company intends to write and state estimated gross and net premium by class of business for the first 2 years of operation. If it is intended to write products liability risks or professional liability risks, or both, state estimated gross and net premium in respect of each separately.

(See Attached Business Plan)

4.e State when the Company intends to commence writing the above class or classes of business.

July 1, 1988

4.f In respect of general business, give estimated income for each of the first two years on as realistic a basis as possible using the following format — (See Attached Business Plan)

Gross Premiums written	
Less Reinsurance premiums ceded	
Net Premiums written	
Less increase (plus decrease) in Unearned Premiums	
Net Premiums Earned	
Plus Investment Income	
Plus other insurance income	
	<u> </u>
	SUBTOTAL
Net Losses and loss expenses incurred	
Reserve for claims incurred but not reported (if applicable)	
Commissions and brokerage incurred	
General and administrative expenses	
Personnel costs	
Other expenses	
Income taxes (if applicable)	
	<u> </u>
	SUBTOTAL
Estimated Net Income for Year	<u> </u>

N.B.1 The Regulations provide for a solvency margin in accordance with the following formula —

General Business Premium Income Net	Relevant Amount (Minimum paid-up Capital and Surplus)
BD\$ 600,000 or less	BD\$ 120,000
BD\$ 600,001—BD\$ 6,000,000	1/5th of GBPI
BD\$ 6,000,001 and above	1/10th of GBPI plus BD\$ 600,000.

N.B.2 The Regulations provide for a minimum liquidity ratio for general business as follows —

“The value of the relevant assets of an insurer carrying on general business shall be not less than seventy-five per centum of the amount of its relevant liabilities, unless the insurer is a section 24(6) composite.”

4.g In respect of long-term insurance business, state as an appendix set out in the format shown below, on as realistic a basis as possible, the estimated volume of business to be transacted during each of the first two years, giving for each type of policy the number of contracts, the total sums assured or amounts of annuity per annum, and the annual or single premiums — figures should be given both gross and net of reinsurance and should relate to world wide business. A final table should summarise the total premium income. Not Applicable

ORDINARY LONG TERM BUSINESS PLAN				
Type of Policy	Year 1			
	No. of Contracts	Total premium income		Total sums insured or amounts or annuity per annum
		Gross	Net of Reinsurance	

Note: Same format for year 2 as for year 1.

5. Give particulars of any business other than insurance business which the Company proposes to carry on.
 None

6.a Give name of and limits carried by primary carrier, if any.
 American International Group will include all classes except General Liability, AIDS and Pollution (See attached).

6.b State the maximum net retention by class of business, for any one risk per occurrence.
 (See Attached)

6.c State layer of retention (primary or XXX excess of XXX) by class of business.
 Captive covers first dollar losses on all classes.

6.d State whether annual aggregate (i.e. stop loss) reinsurance has been/will be arranged. If so, state maximum annual aggregate net losses to be retained by class of business.
 None

7.

Set forth in the columns below the nature and extent of the existing or proposed reinsurance arrangements in respect of each class of business, including in particular the names of, and, where they have been rated by recognised rating organisations, the most recent ratings assigned to, the insurance companies or associations of underwriters which will reinsure each class of the Company's business and the amount which will be reinsured by each. (If more than ten companies will reinsure a class business, the names of only the principal reinsurers need be stated.)

Name	Rating	Class of Insurance	Amount Reinsured
Not Applicable			

8.a

State the full name and address of the following who have accepted their appointment, attaching formal evidence of acceptance of appointment duly signed —

(i) Principal Representative (must be resident in Bermuda).

James (Bermuda) Limited, Global House, Church Street
Hamilton, Bermuda HM JX

(ii) Insurance Manager (if Company has one).

(Same as above)

(iii) Approved Auditor.

Deloitte, Haskins & Sells, Washington Mall,
Church Street, P. O. Box 1556, Hamilton, Bermuda

(iv) (Where required) Loss Reserve Specialist.

Not Applicable

8.b

For companies carrying on long-term business — state the full name and address of the Approved Actuary, attaching formal evidence of acceptance of appointment duly signed.

Not Applicable

9.a

Indicate by ticking the appropriate boxes which of the following are located in Bermuda —

- (i) general ledger
- (ii) general journal
- (iii) subsidiary ledgers (referred to in the general ledger)
- (iv) cash books — receipts and disbursements
- (v) premium registers
- (vi) loss registers
- (vii) reinsurance reports
- (viii) daily reports of claim files
- (ix) copies of policies
- (x) copies of reinsurance treaties and agreements.

9.b

Will those of the foregoing business records which will be kept in Bermuda enable the directors to ascertain within a reasonable period and with reasonable accuracy the Company's position at the end of each three month period? Please answer "Yes" or "No". If No, please explain.

Yes

9.c

Give the addresses where such records are located in Bermuda.

(i) James (Bermuda) Limited, Global House, Church Street,
Hamilton, Bermuda HM JX

(ii)

(iii)

10.

State the date on which the Company's financial year will end.

June 30th

11.

If the answer to question 4.a was in the affirmative — Not Applicable

(a) state the method or methods by which the business will be obtained (e.g. by the Company's own employees, by brokers or agents, or by both methods).

(b) state the way in which settlement of claims will be handled (e.g. by the Company, by outside loss adjusters or assessors, or by other agents with authority to settle claims).

(c) give details of any connection or association (including in particular, a connection or association of a financial kind) which exists between any of the brokers, agents, loss adjusters and assessors referred to in (a) and (b) above, and any director of the Company, any director it is proposed at present to appoint, any person having a majority shareholding in the Company, or any other person on whose directions the directors of the Company or any of them act or will act.

(d) give details of any loans which the Company has made, or proposes to make, to any officer of the Company or his spouse or to any partnership in which an officer of the Company or his spouse has an interest.

(e) give details of any loans or investments, actual or proposed, to or in any subsidiary or associated company or any company at any general meeting of which any officer of the Company or any person controlling the Company, or his spouse, is entitled to exercise, or control the exercise of, one third or more of the voting power.

AMERICAN RED CROSS
 PRE-INCORPORATION INFORMATION FORM
 ATTACHMENT FOR
 QUESTIONS 6a. AND 6b.

6a. <u>Primary Carrier</u>	<u>Class of Business</u>	<u>Policy Limit</u>
AIG	Workers Compensation	STATUTORY
AIG	Auto Liab. & Phys. Damage	\$ 5,000,000/Occ.
AIG	Property	20,000,000/Loss
Captive	General Liability (Claims Made)	1,000,000/Occ.
Captive	Directors & Officers (Claims Made)	1,000,000/Occ.
Captive	AIDS/Pollution Liability. (Claims Made) (100% Funded)	5,000,000/Occ. 5,000,000/Agg.

6b. Captives net retention per occurrence by class of business:

Workers Compensation	\$	1,000,000
Auto Liab. & Phys. Damage		1,000,000
Directors & Officers Liability		1,000,000
General Liability		1,000,000
Directors & Officers		1,000,000
Property		250,000
AIDS/Pollution Liability (100% Funded)		5,000,000

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Phys.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIGS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

(000)

	1988	1989
Total Premiums	\$19,433	\$18,335
Brokerage/Consulting Fees	0	0
Loss Control Fees	0	0
Premium Taxes & Assessments	601	638
Other Program Expenses (Front Fee)	540	575
Claims Handling	599	638
Policy Issuance	0	0
Total Program Expenses	\$1,740	\$1,851
Excess Reinsurance Premiums	1,730	1,842
Net Premiums Available to Pay Losses	\$15,963	\$14,542
Premiums Retained by Primary Carrier	0	0
Net Premiums Ceded to Captive	15,963	14,642

SFC-ARC-D000527

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
FRONTED CAPTIVE PROGRAM FOR
A.L., A.Phy.D., W.C., PROPERTY AND O&O
GENERAL LIABILITY DIRECT FROM CAPTIVE
AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

INCOME STATEMENT

(000)

	1988	1989
Premiums Booked	\$15,963	\$14,642
Change in Premium Reserve	0	0
Premiums Earned	\$15,963	\$14,642
Excise Taxes	0	0
Reinsurance Charges	0	0
Aggregate Stop	0	0
Excess of Loss	0	0
Total Expenses	0	0
Loss Experience:		
Losses Paid	4,187	6,507
Change in Unpaid Claims Reserve	3,133	3,282
Change in IBNR Reserve	4,643	2,852
Total Losses Incurred - Net of Reins. Recov.	\$11,963	\$12,641
Pure Underwriting Gain	\$4,000	\$2,000
Investment Profits Allocated to Underwriting	354	972
Total Profit Attributed to Underwriting	\$4,354	\$2,972
General Operating Expenses:		
Captive Management Fee	40	40
Legal, Accounting, etc.	20	20
Annual Company Fee to Gov't	5	5
Charges for Banking Services (LCC, etc.)	29	52
Miscellaneous Expenses (travel, hotels, etc.)	20	20
Amortization of Formation Costs	0	0
Actuarial Fees	0	0
Total General Operating Expenses	114	137
Net Profit Attributed to Captive	\$4,240	\$2,835
Investment Profits Allocated to Initial Capital	\$163	\$341
Net Profit before Federal Income Taxes	4,402	3,176
Federal Income Taxes	\$0	\$0
Net Profit After Federal Income Taxes	4,402	3,176
Stockholder Dividends Declared		
Change in Retained Earnings	\$4,402	\$3,176
Retained Earnings:		
Beginning of Year	0	4,402
End of Year	4,402	7,578

SFC-ARC-D000528

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
FRONTED CAPTIVE PROGRAM FOR
A.L., A.Ph.D., W.C., PROPERTY AND O&O
GENERAL LIABILITY DIRECT FROM CAPTIVE
AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

BALANCE SHEET

(000)

	1988	1989
ASSETS:		
Cash and Investments		
Cash on Hand & Overnight Deposits	\$328	\$254
Certificates of Deposit	14,272	22,019
Bonds and Other Investments	1,622	2,474
Total Cash and Other Investments	\$15,222	\$24,747
Other Assets		
Premiums Receivable	0	0
Funds Held by Ceding Company	698	1,085
Note Receivables	5,000	5,000
Other Receivables	258	656
Total Other Assets	\$5,956	\$6,741
Total Assets	\$22,178	\$31,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Underwriting Reserves		
Liabilities for Unpaid Claims	\$3,133	\$5,415
Reserve for IBNR	4,543	7,495
Total Loss Reserves	\$7,776	\$13,910
Reserve for Unearned Premiums	0	0
Total Underwriting Reserves	\$7,776	\$13,910
Other Payables	0	0
Total Liabilities	7,776	13,910
Shareholders' Equity		
Retained Earnings	4,402	7,578
Cash Capital	5,000	5,000
Non-Cash Capital	5,000	5,000
Total Equity	\$14,402	\$17,578
Total Liabilities and Shareholders' Equity	\$22,178	\$31,488

SFC-ARC-D000529

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Phv.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

CASH FLOW STATEMENT

(000)

	1988	1989
Net Premiums Ceded to Captive	15,963	14,642
Change in Premiums Receivable	0	0
Premiums Collected	15,963	14,542
Funds Retained by Ceding Company (Chg in Escr)	698	387
Excise Taxes Paid	0	0
Net Funds Received	15,265	14,255
Reinsurance Premiums Paid:		
Aggregate Stop	0	0
Excess of Loss	0	0
Losses Paid	4,187	6,507
Total Payments	4,187	6,507
Net Cashflows from Underwriting	11,078	7,748
Invest Income Received	258	915
Other Expenses Paid:		
Captive Management Fee	40	40
Legal, Accounting, etc.	20	20
Annual Company Fee to Gov't.	5	5
Charges for Banking Services	29	52
Miscellaneous Expenses	20	20
Formation Costs	0	0
Actuarial Fees	0	0
Total Other Expenses Paid	114	137
Taxes Paid	0	0
Net Funds Generated from Operations	11,222	8,525
Capital Paid In	0	0
Total Funds Provided	11,222	8,525
Application of Funds:		
Purchase of Investments	10,994	8,600
Stockholder Dividends Paid		
Total Funds Applied	10,994	8,600
Change in Cash Position	228	(75)
Cash: Beginning of Period	100	328
End of Period	328	254

SFC-ARC-D000530

APPLICATION

To Messrs. Conyers, Dill & Pearman of Hamilton, Bermuda
regarding the formation of a Limited Liability Company
in Bermuda

(This Application is subject to approval by the Firm)

1. Name of proposed Company (Please give at least one alternative name)

- (i) Boardman Indemnity Ltd.
- (ii) Delano Indemnity Ltd.
- (iii) Dunant Indemnity Ltd.

LIMITED or LTD. (please indicate your preference)

2. Type of Company (see Note A and attach the "basic information required" as an addendum to this form)
Insurance Company

3. Address of Registered Office of Company in Bermuda (normally provided by Codan Services Limited, a Company associated with Conyers, Dill & Pearman)

Conyers, Dill & Pearman/Codan Services Limited
Clarendon House
P. O. Box HM 391
Hamilton, Bermuda HM BX

4. Beneficial Owner(s) (see Note B)

Name	Address	Occupation	Nationality
American National Red Cross	17th & D Streets, NW Washington, D.C. 20006		U.S.A.

5. Name of bank from which bank references on beneficial owner(s) will be received or can be requested by Conyers, Dill & Pearman (give full address and name of Bank Officer if possible)

Not Applicable

6. (a) Authorized capital of Company (Insurance Co. see Note C) Minimum \$12,000 Authorized: \$10,000,000
(b) Par value of shares (shares of no par value are not permitted) U.S. \$1.00 per Share
(c) Amount of Proposed Call on the capital (in percentage) 100%

7. Allotment of Share Capital as it will appear in share register. Only fully paid shares may be registered in name of local nominee.

Name	Address	Nationality
American National Red Cross Less 1 qualifying share for each Director and alternate Director	17th & D Streets, NW Washington, D.C. 20006	U.S.A.

8. Custody of share certificates: C D & P Vault () Other - Please identify address (x) 17th & D Streets, NW Washington, D.C. 20006

9. (a) Persons to be elected Directors (see Note D). Minimum number of Directors permitted is two.

Name	Address	Nationality
Neal J. Boyle Stephen H. Richards John D. Campbell William M. Rose Gregory L. Daniels	American National Red Cross 17th & D Streets, NW Washington, D.C. 20006	U.S.A.

Alex Cooper May Coye	Conyers, Dill & Pearman Clarendon House	Bermudian
-------------------------	--	-----------

SFC-ARC-D000531

(b) Persons to be elected Alternate Directors

Name	Address	Nationality
------	---------	-------------

(To Be Determined by Conyers, Dill & Pearman)

10. Names of Directors to be elected President and Vice-President

President:

Neal J. Boyle

Vice-President:

Gregory L. Daniels

11. Name of person to be appointed Secretary (a service normally provided by a designee of Codan Services Limited)

(To Be Determined by Conyers, Dill & Pearman)

12. Additional officers (if any). These need not be Directors.

Additional Vice-Presidents: Not Applicable

Assistant Secretary: Not Applicable

Treasurer: William M. Rose

Other:

13. Special provisions for Bye-Laws (if any)

Yes, details to follow.

14. Name of Auditors for annual audit on behalf of shareholders (see Note E)

Deloitte, Haskins & Sells

15. Name of accountant (or manager for insurance companies) who will keep Company's books (see Note E)

James (Bermuda) Ltd.

16. Financial year end (if year end immaterial, then at option of auditor)

June 30th

17. Bank account(s) required

(a) In Bermuda

Currency

Signatories

The Bank of
Bermuda, Ltd.

U.S. Dollars

Warren Sproule
Alex Cooper

(b) Elsewhere

Currency

Signatories

(To Be Determined by Treasurer)

SFC-ARC-D000532

18. Is tax exemption undertaking required up to 2016?

Yes

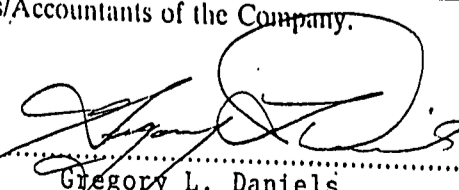
9. A remittance of US\$3,000 in the case of insurance brokerage or management companies, US\$5,000 for insurance companies, and US\$2,000 for other types of companies is required and is enclosed as payment on account in respect of preliminary incorporation expenses in the event that this Application is accepted.

10. This confidential information may be disclosed to the Auditors/Accountants of the Company.

Date

5/12/88

Signature



Gregory L. Daniels

Office held Vice-President and Director

AMERICAN RED CROSS
BUSINESS PLAN FOR
CAPTIVE INSURANCE COMPANY

The American Red Cross has decided to establish a captive insurance company in Bermuda to commence business on July 1, 1988. The captive will be formed as a wholly-owned subsidiary of the American Red Cross and will insure or reinsure only the exposures of its parent. It is not anticipated at this time that the captive will underwrite any third party exposures.

Background

In recent years, the Red Cross organization has been subjected to insurer practices which, at best could be characterized as arbitrary, and to vagaries of the underwriting cycle which have been well beyond its control. Examples of fall out from the recent hard market include:

- o Loss of coverage for liability related to AIDS
- o Reluctance of primary markets to underwrite any exposures related to Blood and/or Transplantation Services and/or constant threats of complete loss of future coverage
- o Forced conversion of liability coverage to a claims-made form from the traditional occurrence form
- o Loss of all coverage for pollution exposures
- o Loss of all coverage for defense costs
- o More restrictive terms of coverage for directors and officers liability and personal injury claims (e.g., wrongful termination claims)
- o Unreasonably high premium rates for excess liability, property, and directors and officers liability coverages

Objectives

Through the proposed captive arrangement, it is anticipated that the American Red Cross would achieve the following:

- o Ability to maintain (write back in) better coverage terms for:
 - Pollution
 - Blood and Transplantation Services
 - Legal Expenses
 - Wrongful Termination
 - All forms of personal injury
 - Occurrence-based coverage where appropriate

- o Improved premium rates for excess liability, property insurance, and directors and officers liability coverage
- o Greater overall stability and independence from insurance market cycles
- o Better and easier access to reinsurance markets
- o Ability to maintain a disciplined funding mechanism for AIDS liability and an ability to generate policies and certificates evidencing coverage

Structure and Capital

The captive will replace policy deductibles and retrospectively-rated programs to fund loss retentions, and will be utilized on both a direct and reinsurance basis. Given the proposed structure of the captive, a capitalization level of \$10,000,000 will be established. The table below outlines the retention levels and type of insurance to be provided for each line of coverage.

<u>Lines of Coverage</u>	<u>Type of Insurance Provided by Captive</u>	<u>Captive Retention Level</u>
Casualty		
Workers' Compensation	Reinsurance	\$1,000,000/Occurrence
Auto Liab. & Phys. Damage	Reinsurance	\$1,000,000/Occurrence
General Liability	Direct	\$1,000,000/Occurrence
Property	Reinsurance	\$ 250,000/Occurrence \$1,000,000/Annual Aggregate
Directors and Officers Liability	Direct	\$1,000,000/Occurrence
AIDS/Pollution Liability	Direct	\$5,000,000/Occurrence \$5,000,000/Annual Aggregate

In cases where the captive is operating in a reinsurance capacity, it is expected that fronting services will be provided by American International Group (AIG) companies. Service providers for the captive in Bermuda will be as follows:

<u>Management Company:</u>	James (Bermuda) Ltd.
<u>Auditors :</u>	Deloitte, Haskins & Sells
<u>Law Firm :</u>	Conyers, Dill & Pearman
<u>Bank :</u>	The Bank of Bermuda Ltd.

AIDS Liability

Currently, the American Red Cross is funding for potential AIDS claims through an insurance assessment which is levied on Red Cross blood centers. The existing AIDS liability fund balance, projected to be approximately \$5,000,000 at July 1, 1988, would be utilized as premium to procure insurance coverage from the captive. Future AIDS liability insurance assessments collected from the blood centers would also flow into the captive, building its financial capacity to pay AIDS-related claims and defense costs.

It should be noted that the aggregate limits on the AIDS policy, if issued directly from the captive, will be backed 100% by the cash premiums which flow into the captive. Limits on the policy will only be increased in the future by the excess of premiums over claims and defense costs. In this way, the capital base of the captive will remain protected from the AIDS exposure.

Pro-Forma Financial Statements

The financial performance of the proposed captive structure has been analyzed over a two year period. The following table shows the losses that comprise the majority of the premium volume. It should be noted that only losses for the casualty lines of coverage (i.e. workers' compensation, automobile liability and physical damage and general liability) have been actuarially determined. Property losses have been conservatively estimated based on an historic average frequency of 35 claims per year.

Both the AIDS, and directors and officers liability losses are without sufficient historic data to produce reasonable estimates. The loss levels for each of these coverages were assumed merely for demonstrating the impact on the financial statements:

<u>Line of Business</u>	<u>LOSS LEVELS (\$000)</u>	
	<u>1988-89</u>	<u>1989-90</u>
Workers' Compensation	\$ 4,890	\$ 5,199
General Liability	2,205	2,341
Automobile Liability	2,751	2,946
Automobile Physical Damage	626	664
Property Losses	440	440
Directors and Officers Liability	51	51
AIDS Liability	1,000	1,000
	-----	-----
Total Losses	\$11,963	\$12,641
	=====	=====

In addition to the loss estimates, variable expenses were projected based on pricing factors utilized in the existing program. Attached are the financial statements based on this data.

American Red Cross
Captive Program Expenses
(\$000)

	<u>1988-89</u>	<u>1989-90</u>
Total Losses	\$11,963	\$12,641
Expenses		
State Premium Taxes		
Auto Liability	137	147
Auto Physical Damage	31	33
General & AIDS Liability	-0-	-0-
Workers' Compensation	408	433
Property	22	22
Directors & Officers Liability	3	3
Total	----- 601	----- 638
Operating Expenses		
Fronting Fees	540	575
Claims Handling	599	639
Total	----- 1,139	----- 1,214
Excess/Reinsurance		
Casualty	1,326	1,412
Property	250	266
Directors & Officers Liability	154	164
Total	----- 1,730	----- 1,842
Total Losses and Expenses	15,433 =====	16,335 =====
AIDS Loss Fund	5,000	3,000
Less Assumed Incurred Loss	(1,000)	(1,000)
Net Loss Fund	----- 4,000	----- 2,000
Total Program Premium	19,433 =====	18,335 =====
Captive Operating Expenses*		
LOC/Bank Charges	29	52
Legal, Accounting, etc.	20	20
Management Fees	40	40
Bermuda Govt. Tax	5	5
Misc. Charges	20	20
	----- 114	----- 137

*Not included in the program cost, paid from investment income.

SFC-ARC-D000536

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 ATOS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

(000)

	1988	1989
Total Premiums	\$19,433	\$18,335
Brokerage/Consulting Fees	0	0
Loss Control Fees	0	0
Premium Taxes & Assessments	601	638
Other Program Expenses (Front Fee)	540	575
Claims Handling	599	638
Policy Issuance	0	0
Total Program Expenses	\$1,740	\$1,851
Excess Reinsurance Premiums	1,730	1,842
Net Premiums Available to Pay Losses	\$15,963	\$14,542
Premiums Retained by Primary Carrier	0	0
Net Premiums Ceded to Captive	15,963	14,642

SFC-ARC-D000537

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
FRONTED CAPTIVE PROGRAM FOR
A.L., A.Phy.D., W.C., PROPERTY AND D&O
GENERAL LIABILITY DIRECT FROM CAPTIVE
AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

INCOME STATEMENT

(000)

	1988	1989
Premiums Booked	\$15,963	\$14,642
Change in Premium Reserve	0	0
Premiums Earned	\$15,963	\$14,642
Excise Taxes	0	0
Reinsurance Charges	0	0
Aggregate Stop	0	0
Excess of Loss	0	0
Total Expenses	0	0
Loss Experience:		
Losses Paid	4,187	6,507
Change in Unpaid Claims Reserve	3,133	3,282
Change in IBNR Reserve	4,643	2,852
Total Losses Incurred - Net of Reins. Recov.	\$11,963	\$12,641
Pure Underwriting Gain	\$4,000	\$2,000
Investment Profits Allocated to Underwriting	354	972
Total Profit Attributed to Underwriting	\$4,354	\$2,972
General Operating Expenses:		
Captive Management Fee	40	40
Legal, Accounting, etc.	20	20
Annual Company Fee to Gov't	5	5
Charges for Banking Services (LOC, etc.)	29	52
Miscellaneous Expenses (travel, hotels, etc.)	20	20
Amortization of Formation Costs	0	0
Actuarial Fees	0	0
Total General Operating Expenses	114	137
Net Profit Attributed to Captive	\$4,240	\$2,835
Investment Profits Allocated to Initial Capital	\$163	\$341
Net Profit before Federal Income Taxes	4,402	3,176
Federal Income Taxes	\$0	\$0
Net Profit After Federal Income Taxes	4,402	3,176
Stockholder Dividends Declared		
Change in Retained Earnings	\$4,402	\$3,176
Retained Earnings:		
Beginning of Year	0	4,402
End of Year	4,402	7,578

SFC-ARC-D000538

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND O&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

BALANCE SHEET

(000)

	1988	1989
ASSETS:		
Cash and Investments		
Cash on Hand & Overnight Deposits	\$328	\$254
Certificates of Deposit	14,272	22,019
Bonds and Other Investments	1,622	2,474
Total Cash and Other Investments	\$16,222	\$24,747
Other Assets		
Premiums Receivable	0	0
Funds Held by Ceding Company	698	1,085
Note Receivables	5,000	5,000
Other Receivables	258	656
Total Other Assets	\$5,956	\$6,741
Total Assets	\$22,178	\$31,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Underwriting Reserves		
Liabilities for Unpaid Claims	\$3,133	\$6,415
Reserve for IBNR	4,643	7,495
Total Loss Reserves	\$7,776	\$13,910
Reserve for Unearned Premiums	0	0
Total Underwriting Reserves	\$7,776	\$13,910
Other Payables	0	0
Total Liabilities	7,776	13,910
Shareholders' Equity		
Retained Earnings	4,402	7,578
Cash Capital	5,000	5,000
Non-Cash Capital	5,000	5,000
Total Equity	\$14,402	\$17,578
Total Liabilities and Shareholders' Equity	\$22,178	\$31,488

SFC-ARC-D000539

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Phy.O., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

CASH FLOW STATEMENT

(000)

	1988	1989
Net Premiums Ceded to Captive	15,963	14,642
Change in Premiums Receivable	0	0
Premiums Collected	15,963	14,642
Funds Retained by Ceding Company (Chg in Escr	698	387
Excise Taxes Paid	0	0
Net Funds Received	15,265	14,255
Reinsurance Premiums Paid:		
Aggregate Stop	0	0
Excess of Loss	0	0
Losses Paid	4,187	6,507
Total Payments	4,187	6,507
Net Cashflows from Underwriting	11,078	7,748
Invest Income Received	258	915
Other Expenses Paid:		
Captive Management Fee	40	40
Legal, Accounting, etc.	20	20
Annual Company Fee to Gov't.	5	5
Charges for Banking Services	29	52
Miscellaneous Expenses	20	20
Formation Costs	0	0
Actuarial Fees	0	0
Total Other Expenses Paid	114	137
Taxes Paid	0	0
Net Funds Generated from Operations	11,222	8,525
Capital Paid In	0	0
Total Funds Provided	11,222	8,525
Application of Funds:		
Purchase of Investments	10,994	8,500
Stockholder Dividends Paid		
Total Funds Applied	10,994	8,500
Change in Cash Position	228	(75)
Cash: Beginning of Period	100	328
End of Period	328	254

SFC-ARC-D000540

James

MANAGEMENT DIVISION

MAY 2 1988

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564 -7442
Telex 844188

CAPTIVE DEVELOPMENT & PLANNING DIVISION

April 27, 1988

Mr. Greg Daniels
Risk Management Division
American Red Cross
615 St. Asaph Street
Alexandria, VA 22314

Re: Proposed Bermuda Captive

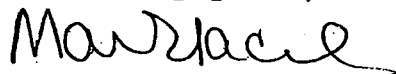
Dear Greg:

As per our conversation, attached are two additional sets of pro-forma financial statements relative to the AIDS/Pollution coverage. The first pro-forma statement shows the AIDS/Pollution coverage flowing through the captive. The second shows the coverage 100% reinsured out of the captive.

Since we have assumed no expenses associated with this portion of the program i.e., taxes, front fees, etc., the purpose of these statements is to illustrate the cash flow benefit; assuming a \$1.0 million incurred loss each year, of running the program through the proposed captive. As you will note, no capitalization nor operating expenses have been included since this portion would form a part of the entire program.

Please give me a call if you have only questions.

Very truly yours,



Marty Nadel
Assistant Vice President

MN/lde
Attachment

cc: B. Finnerty
B. Moll

SFC-ARC-D000541

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE THROUGH
THE BERMUDA CAPTIVE

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	5,000	3,000	3,000	3,000	3,000

SFC-ARC-D000542

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE THROUGH
THE BERMUDA CAPTIVE

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	22	68	142	251	373
Change in Unpaid Claims Reserve	126	360	488	519	494
Change in IBNR Reserve	852	572	370	230	133
Total Losses Incurred - Net of Reins. Recov.	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Pure Underwriting Gain	\$4,000	\$2,000	\$2,000	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	161	427	641	862	1,089
Total Profit Attributed to Underwriting	\$4,161	\$2,427	\$2,641	\$2,862	\$3,089
General Operating Expenses:					
Captive Management Fee	0	0	0	0	0
Legal, Accounting, etc.	0	0	0	0	0
Government Fee	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	0	0	0	0	0
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Actuarial Expenses	0	0	0	0	0
Risk Management Info System	0	0	0	0	0
Total General Operating Expenses	0	0	0	0	0
Net Profit Attributed to Captive	\$4,161	\$2,427	\$2,641	\$2,862	\$3,089
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	4,161	2,427	2,641	2,862	3,089
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	4,161	2,427	2,641	2,862	3,089
Stockholder Dividends Declared					
Change in Retained Earnings	\$4,161	\$2,427	\$2,641	\$2,862	\$3,089
Retained Earnings:					
Beginning of Year	0	4,161	6,588	9,229	12,091
End of Year	4,161	6,588	9,229	12,091	15,179

SFC-ARC-D000543

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE THROUGH
THE BERMUDA CAPTIVE

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$102	\$85	\$121	\$157	\$195
Certificates of Deposit	4,447	7,361	10,367	13,465	16,651
Bonds and Other Investments	505	827	1,165	1,513	1,871
Total Cash and Other Investments	\$5,055	\$8,273	\$11,653	\$15,135	\$18,717
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	4	11	24	42	62
Note Receivables	0	0	0	0	0
Other Receivables	80	214	320	431	544
Total Other Assets	\$84	\$225	\$344	\$473	\$607
Total Assets	\$5,139	\$8,498	\$11,997	\$15,608	\$19,323
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$126	\$486	\$974	\$1,493	\$1,987
Reserve for IBNR	852	1,424	1,794	2,024	2,157
Total Loss Reserves	\$978	\$1,910	\$2,768	\$3,517	\$4,144
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$978	\$1,910	\$2,768	\$3,517	\$4,144
Other Payables	0	0	0	0	0
Total Liabilities	978	1,910	2,768	3,517	4,144
Shareholders' Equity					
Retained Earnings	4,161	6,588	9,229	12,091	15,179
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	\$4,161	\$6,588	\$9,229	\$12,091	\$15,179
Total Liabilities and Shareholders' Equity	\$5,139	\$8,498	\$11,997	\$15,608	\$19,323

SFC-ARC-D000544

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE THROUGH
THE BERMUDA CAPTIVE

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	5,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	5,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr	4	8	12	18	20
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	4,996	2,992	2,988	2,982	2,980
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	22	68	142	251	373
Total Payments	22	68	142	251	373
Net Cashflows from Underwriting	4,974	2,924	2,846	2,731	2,607
Invest Income Received	80	294	534	751	975
Other Expenses Paid:					
Captive Management Fee	0	0	0	0	0
Legal, Accounting, etc.	0	0	0	0	0
Premium Tax to the Domicile State	0	0	0	0	0
Charges for Banking Services	0	0	0	0	0
Miscellaneous Expenses	0	0	0	0	0
Actuarial Expenses	0	0	0	0	0
Risk Management Info System	0	0	0	0	0
Total Other Expenses Paid	0	0	0	0	0
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,055	3,218	3,380	3,482	3,582
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,055	3,218	3,380	3,482	3,582
Application of Funds:					
Purchase of Investments	4,952	3,236	3,344	3,446	3,544
Stockholder Dividends Paid					
Total Funds Applied	4,952	3,236	3,344	3,446	3,544
Change in Cash Position	102	(18)	36	37	38
Cash: Beginning of Period	0	102	85	121	157
End of Period	102	85	121	157	195

SFC-ARC-D000545

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE 100%
REINSURED

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	5,000	3,000	3,000	3,000	3,000

SFC-ARC-D000546

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE 100%
REINSURED

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$5,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	5,000	3,000	3,000	3,000	3,000
Total Expenses	5,000	3,000	3,000	3,000	3,000
Loss Experience:					
Losses Paid	0	0	0	0	0
Change in Unpaid Claims Reserve	0	0	0	0	0
Change in IBNR Reserve	0	0	0	0	0
Total Losses Incurred - Net of Reins. Recov.	\$0	\$0	\$0	\$0	\$0
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	0	0	0	0	0
Total Profit Attributed to Underwriting	\$0	\$0	\$0	\$0	\$0
General Operating Expenses:					
Captive Management Fee	0	0	0	0	0
Legal, Accounting, etc.	0	0	0	0	0
Government Fee	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	0	0	0	0	0
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Actuarial Expenses	0	0	0	0	0
Risk Management Info System	0	0	0	0	0
Total General Operating Expenses	0	0	0	0	0
Net Profit Attributed to Captive	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	0	0	0	0	0
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	0	0	0	0	0
Stockholder Dividends Declared					
Change in Retained Earnings	\$0	\$0	\$0	\$0	\$0
Retained Earnings:					
Beginning of Year	0	0	0	0	0
End of Year	0	0	0	0	0

SFC-ARC-D000547

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE 100%
REINSURED

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$0	\$0	\$0	\$0	\$0
Certificates of Deposit	0	0	0	0	0
Bonds and Other Investments	0	0	0	0	0
Total Cash and Other Investments	\$0	\$0	\$0	\$0	\$0
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	0	0	0	0	0
Note Receivables	0	0	0	0	0
Other Receivables	0	0	0	0	0
Total Other Assets	\$0	\$0	\$0	\$0	\$0
Total Assets	\$0	\$0	\$0	\$0	\$0
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$0	\$0	\$0	\$0	\$0
Reserve for IBNR	0	0	0	0	0
Total Loss Reserves	\$0	\$0	\$0	\$0	\$0
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$0	\$0	\$0	\$0	\$0
Other Payables	0	0	0	0	0
Total Liabilities	0	0	0	0	0
Shareholders' Equity					
Retained Earnings	0	0	0	0	0
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	\$0	\$0	\$0	\$0	\$0
Total Liabilities and Shareholders' Equity	\$0	\$0	\$0	\$0	\$0

SFC-ARC-D000548

19-Apr-88

AMERICAN RED CROSS
AIDS COVERAGE 100%
REINSURED

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	5,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	5,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr	0	0	0	0	0
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	5,000	3,000	3,000	3,000	3,000
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	5,000	3,000	3,000	3,000	3,000
Losses Paid	0	0	0	0	0
Total Payments	5,000	3,000	3,000	3,000	3,000
Net Cashflows from Underwriting	0	0	0	0	0
Invest Income Received	0	0	0	0	0
Other Expenses Paid:					
Captive Management Fee	0	0	0	0	0
Legal, Accounting, etc.	0	0	0	0	0
Premium Tax to the Domicile State	0	0	0	0	0
Charges for Banking Services	0	0	0	0	0
Miscellaneous Expenses	0	0	0	0	0
Actuarial Expenses	0	0	0	0	0
Risk Management Info System	0	0	0	0	0
Total Other Expenses Paid	0	0	0	0	0
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	0	0	0	0	0
Capital Paid In	0	0	0	0	0
Total Funds Provided	0	0	0	0	0
Application of Funds:					
Purchase of Investments	0	0	0	0	0
Stockholder Dividends Paid					
Total Funds Applied	0	0	0	0	0
Change in Cash Position	0	0	0	0	0
Cash: Beginning of Period	0	0	0	0	0
End of Period	0	0	0	0	0

SFC-ARC-D000549



FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
 Telex 844188
 CAPTIVE DEVELOPMENT & PLANNING DIVISION

April 29, 1988

Mr. Greg Daniels
 Risk Management Division
 American Red Cross
 615 St. Asaph Street
 Alexandria, VA 22314

Re: Proposed Bermuda Captive

Dear Greg:

This letter will serve to confirm our various conversations regarding the most recent sets of pro-forma financial statements:

The loss forecast dated 2/29/88 was restated by the Risk Management Consulting Group for a \$1.0 million retention. The revised numbers are:

(\$000) Line of Business	Fiscal Year				
	1988	1989	1990*	1991*	1992*
Workers Compensation	4,890	5,199	5,536	5,894	6,275
Auto Liability	2,751	2,946	3,137	3,339	3,557
Auto Physical Damage	626	663	707	754	802
General Liability	2,205	2,342	2,493	2,655	2,827
TOTAL	10,472	11,150	11,873	12,642	13,461

* trended at approximately 6.5%/year.

SFC-ARC-D000550

Letter to Greg Daniels
 April 29, 1988
 Page 2

- 2) The estimated incurred losses for the other lines of business are as follows:

(\$000) Line of Business	Fiscal Years				
	1988	1989	1990	1991	1992
Property	440	440	440	440	440
D & O	51	51	51	51	51
AIDS/Pollution	1,000	1,000	1,000	1,000	1,000
TOTAL	1,491	1,491	1,491	1,491	1,491

- 3) The weighted average payout and reporting patterns used in the analysis are as follows:

(\$000) Line of Business	Reporting Pattern				
	Fiscal Years				
	1988	1989	1990	1991	1992
Casualty	65.0%	16.0%	9.0%	5.0%	1.0%
Property	81.0%	19.0%	--	--	--
D & O	19.0%	28.0%	28.0%	5.0%	11.0%
AIDS/Pollution	14.8%	28.0%	20.2%	14.0%	9.7%
Cumulative Weighted Average	61.19%	78.36%	88.04%	93.61%	95.34%

SFC-ARC-D000551


Letter to Greg Daniels
April 29, 1988
Page 3

(\$000) Line of Business	Payout Pattern				
	Fiscal Year				
	1988	1989	1990	1991	1992
Casualty	34.0%	19.0%	10.0%	10.0%	8.0%
Property	90.0%	10.0%	--	--	--
D & O	1.8%	5.0%	10.6%	13.8%	12.1%
AIDS/Pollution	2.2%	4.6%	7.4%	10.9%	12.2%
Cumulative Weighted Average	35.0%	52.41%	61.82%	71.55%	79.62%

- 4) There are no L.O.C. charges included in the financial statements which are applicable to the non-cash capitalization portion.
- 5) The program expenses i.e., front fees, claims handling, taxes, reinsurance expenses, etc., have been trended according to the growth in estimated incurred losses/premiums.

Let me know if you have any questions.

Very truly yours,



Martin Nadel
Assistant Vice President

MN/lde

cc: B. Finnerty
B. Moll

SFC-ARC-D000552

James

RISK MANAGEMENT DIVISION

APR 26 1988

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
Telex 844188
CAPTIVE DEVELOPMENT & PLANNING DIVISION

April 25, 1988

Mr. Greg Daniels
Risk Management Division
American Red Cross
615 St. Asaph Street
Alexandria, VA 22314

Re: Proposed Bermuda Captive

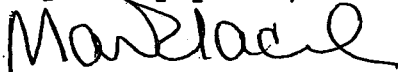
Dear Greg:

As requested, attached is a schedule of captive expenses for the pro-forma financial scenarios 1 and 2 dated April 21, 1988.

I had to expand the format somewhat, since the program will now include more than just the casualty exposures.

Let me know if you need additional information.

Very truly yours,



Martin Nadel
Assistant Vice President

MN/lde
Attachment

cc: B. Moll
B. Finnerty

SFC-ARC-D000553

AMERICAN RED CROSS
CAPTIVE PROPOSAL
SCHEDULE OF CAPTIVE EXPENSES

Scenario 1

Line No.	Proposed Captive Program Expenses	(1)	(2)	(3)	(4)	(5)
		Fiscal Years				
		1988	1989	1990	1991	1992
		(000)	(000)	(000)	(000)	(000)
(1)	Losses Within Program:					
(2)	Casualty	\$10,472	\$11,150	\$11,873	\$12,642	\$13,460
(3)	Property	\$440	\$440	\$440	\$440	\$440
(4)	Directors & Officers *	\$51	\$51	\$51	\$51	\$51
(5)	AIDS/Pollution	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
(6)	Total Losses Within Program	\$11,963	\$12,641	\$13,364	\$14,133	\$14,952
(7)	State Premium Taxes:					
(8)	Automobile Liability	\$138	\$147	\$157	\$167	\$178
(9)	Automobile Physical Damage	\$31	\$33	\$35	\$38	\$41
(10)	General Liability	\$0	\$0	\$0	\$0	\$0
(11)	Workers Compensation	\$408	\$433	\$461	\$491	\$523
(12)	Total Casualty	\$576	\$614	\$654	\$696	\$742
(13)	Property	\$22	\$22	\$22	\$22	\$22
(14)	Directors & Officers	\$3	\$3	\$3	\$3	\$3
(15)	AIDS/Pollution	\$0	\$0	\$0	\$0	\$0
(16)	Total State Premium Taxes	\$601	\$638	\$678	\$720	\$766
(17)	Operating Expenses:					
(18)	Basic/Front Charges					
(19)	All Lines Combined	\$540	\$575	\$612	\$652	\$694
(20)	Claims Handling					
(21)	Casualty	\$589	\$627	\$668	\$711	\$757
(22)	Property	\$10	\$11	\$11	\$12	\$12

SFC-ARC-D000554

AMERICAN RED CROSS
CAPTIVE PROPOSAL
SCHEDULE OF CAPTIVE EXPENSES

Scenario 2

(1) (2) (3) (4) (5)

Fiscal Years

Line No.	Proposed Captive Program Expenses	1988	1989	1990	1991	1992
		(000)	(000)	(000)	(000)	(000)
(1)	Losses Within Program:					
(2)	Casualty	\$10,472	\$11,150	\$11,873	\$12,642	\$13,460
(3)	Property	\$440	\$440	\$440	\$440	\$440
(4)	Directors & Officers *	\$51	\$51	\$51	\$51	\$51
(5)	AIDS/Pollution	\$0	\$0	\$0	\$0	\$0
(6)	Total Losses Within Program	\$10,963	\$11,641	\$12,364	\$13,133	\$13,952
(7)	State Premium Taxes:					
(8)	Automobile Liability	\$138	\$147	\$157	\$167	\$178
(9)	Automobile Physical Damage	\$31	\$33	\$35	\$38	\$41
(10)	General Liability	\$0	\$0	\$0	\$0	\$0
(11)	Workers Compensation	\$408	\$433	\$461	\$491	\$523
(12)	Total Casualty	\$576	\$614	\$654	\$696	\$742
(13)	Property	\$22	\$22	\$22	\$22	\$22
(14)	Directors & Officers	\$3	\$3	\$3	\$3	\$3
(15)	AIDS/Pollution	\$0	\$0	\$0	\$0	\$0
(16)	Total State Premium Taxes	\$601	\$638	\$678	\$720	\$766
(17)	Operating Expenses:					
(18)	Basic/Front Charges					
(19)	All Lines Combined	\$540	\$575	\$612	\$652	\$694
(20)	Claims Handling					
(21)	Casualty	\$580	\$627	\$668	\$711	\$757

James

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
Telex 844188

CAPTIVE DEVELOPMENT & PLANNING DIVISION

April 21, 1988

Mr. P. Bruce Finnerty
Vice President
Fred. S. James & Co., Inc. of Virginia
1600 Wilson Blvd., Suite 1100
Arlington, Virginia 22209-2582

Re: American Red Cross

Dear Bruce:

As requested, attached are pro-forma financial statement scenarios 1 and 2. Scenario 1 includes all lines of coverage that the proposed captive will provide, i.e., automobile liability, automobile physical damage, general liability, workers' compensation, property, directors and officers and AIDS/pollution. Under this scenario, the AIDS/pollution coverage will be provided by the captive on a direct basis (no fronting carrier will be involved). Scenario 2 also includes all coverages that the proposed captive will provide, however, the AIDS/pollution coverage will be reinsured from the captive.

We have used the latest loss forecast as provided by the Risk Management Consulting Group dated February 19, 1988. The premiums, losses and program expenses have been trended approximately 6.5% per year and the pro-formas have been produced on an underwriting breakeven basis. The only exception was the AIDS/pollution portion. For scenario 1 the AIDS/pollution portion was based upon a \$1.0 million loss each year and the premiums used were \$5.0 million for the first year and \$3.0 million each for years two through five. Therefore, the pro-formas show underwriting profit attributed to this line of coverage of \$4.0 million in the first year and \$2.0 million each for years two through five. For scenario 2, the losses applicable to AIDS/pollution were removed and the income statement shows reinsurance purchased for the full value of the loss fund, i.e., \$5.0 million in the first year and \$3.0 million each for years two through five.

SFC-ARC-D000556

Letter to P. Bruce Finnerty
 April 21, 1988
 Page 2

In addition, we have assumed a 6.5% investment income rate, 3/8 of 1% for the letter of credit fees as respects the underwriting reserves, \$10.0 million in capitalization (\$5.0 million cash and \$5.0 million letter of credit) and no federal income nor excise tax obligations. All other general operating expenses such as the captive management fee, audit/accounting charges, etc., remain unchanged from the January, 1988 captive proposal report.

A summary of the results for scenario 1 and 2 is as follows:

(\$000)	Fiscal Years				
	1988	1989	1990	1991	1992
Net Premiums to the Captive					
Scenario 1	15,963	14,642	15,364	16,133	16,951
Scenario 2	15,963	14,642	15,364	16,133	16,951
Total Profit/Underwriting					
Scenario 1	4,354	2,972	3,504	4,018	4,514
Scenario 2	206	586	938	1,267	1,572
Retained Earnings (End of Year)					
Scenario 1	4,402	7,578	11,288	15,519	20,257
Scenario 2	256	1,051	2,201	3,688	5,492

Should you have any questions, please give me a call.

Very truly yours,



Martin I. Nadel
 Assistant Vice President

cc: B. Moll

SFC-ARC-D000557

SCENARIO 2

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 ATDS/POLLUTION COVERAGE REINSURED FROM CAPTIVE

	(000)				
	1988	1989	1990	1991	1992
Total Premiums	\$19,433	\$18,335	\$19,295	\$20,317	\$21,405
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	601	638	678	720	765
Other Program Expenses (Front Fee)	540	575	612	652	694
Claims Handling	599	638	679	723	770
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,740	\$1,851	\$1,959	\$2,095	\$2,230
Excess Reinsurance Premiums	1,730	1,842	1,962	2,089	2,224
Net Premiums Available to Pay Losses	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	15,963	14,642	15,364	16,133	16,951

SFC-ARC-D000558

SCENARIO 2

21-Apr-88

AMERICAN RED CROSS
FRONTED CAPTIVE PROGRAM FOR
A.L., A.Ph.D., W.C., PROPERTY AND D&O
GENERAL LIABILITY DIRECT FROM CAPTIVE
AIDS/POLLUTION COVERAGE REINSURED FROM CAPTIVE

INCOME STATEMENT

(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	5,000	3,000	3,000	3,000	3,000
Total Expenses	5,000	3,000	3,000	3,000	3,000
Loss Experience:					
Losses Paid	3,827	5,983	7,386	8,911	10,350
Change in Unpaid Claims Reserve	2,871	3,023	3,240	2,985	2,476
Change in IBNR Reserve	4,255	2,636	1,738	1,235	1,125
Total Losses Incurred - Net of Reins. Recov.	\$10,963	\$11,641	\$12,364	\$13,133	\$13,952
Pure Underwriting Gain	\$0	\$0	\$0	\$0	(\$0)
Investment Profits Allocated to Underwriting	206	586	938	1,267	1,572
Total Profit Attributed to Underwriting	\$206	\$586	\$938	\$1,267	\$1,572
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	27	48	67	82	96
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	112	133	152	167	181
Net Profit Attributed to Captive	\$94	\$453	\$786	\$1,100	\$1,391
Investment Profits Allocated to Initial Capital	\$163	\$341	\$364	\$388	\$413
Net Profit before Federal Income Taxes	256	794	1,150	1,487	1,804
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	256	794	1,150	1,487	1,804
Stockholder Dividends Declared					
Change in Retained Earnings	\$256	\$794	\$1,150	\$1,487	\$1,804
Retained Earnings:					
Beginning of Year	0	256	1,051	2,201	3,688
End of Year	256	1,051	2,201	3,688	5,492

SFC-ARC-D000559

SCENARIO 2

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND O&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE REINSURED FROM CAPTIVE

BALANCE SHEET

(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$234	\$178	\$240	\$295	\$348
Certificates of Deposit	10,169	15,459	20,534	25,229	29,677
Bonds and Other Investments	1,155	1,737	2,307	2,635	3,334
Total Cash and Other Investments	\$11,559	\$17,374	\$23,081	\$28,359	\$33,359
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	640	997	1,231	1,485	1,725
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	184	463	651	827	992
Total Other Assets	\$5,824	\$6,461	\$6,882	\$7,312	\$7,716
Total Assets	\$17,382	\$23,835	\$29,963	\$35,672	\$41,077
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,871	\$5,894	\$9,133	\$12,119	\$14,595
Reserve for IBNR	4,255	6,890	8,629	9,865	10,990
Total Loss Reserves	\$7,126	\$12,784	\$17,762	\$21,984	\$25,585
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$7,126	\$12,784	\$17,762	\$21,984	\$25,585
Other Payables	0	0	0	0	0
Total Liabilities	7,126	12,784	17,762	21,984	25,585
Shareholders' Equity					
Retained Earnings	256	1,051	2,201	3,688	5,492
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,256	\$11,051	\$12,201	\$13,688	\$15,492
Total Liabilities and Shareholders' Equity	\$17,382	\$23,835	\$29,963	\$35,672	\$41,077

SFC-ARC-D000560

SCENARIO 2

21-Apr-86

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Phv.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE REINSURED FROM CAPTIVE

CASH FLOW STATEMENT

	(000)				
	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	15,963	14,642	15,364	16,133	16,951
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	15,963	14,642	15,364	16,133	16,951
Funds Retained by Ceding Company (Chg in Eschr)	640	358	234	254	240
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	15,323	14,284	15,130	15,879	16,712
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	5,000	3,000	3,000	3,000	3,000
Losses Paid	3,837	5,983	7,386	8,911	10,350
Total Payments	8,837	8,983	10,386	11,911	13,350
Net Cashflows from Underwriting	6,486	5,301	4,745	3,968	3,361
Invest Income Received	184	647	1,114	1,478	1,820
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	27	48	67	82	96
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	112	133	152	167	181
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	6,559	5,815	5,707	5,278	5,000
Capital Paid In	0	0	0	0	0
Total Funds Provided	6,559	5,815	5,707	5,278	5,000
Application of Funds:					
Purchase of Investments	6,425	5,871	5,646	5,222	4,947
Stockholder Dividends Paid					
Total Funds Applied	6,425	5,871	5,646	5,222	4,947
Change in Cash Position	134	(56)	61	56	53
Cash: Beginning of Period	160	234	178	240	295
End of Period	294	178	239	296	348

SFC-ARC-D000561

JAMES

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
Telex 844188
CAPTIVE DEVELOPMENT & PLANNING DIVISION

7451

December 30, 1987

Mr. Bruce Finnerty
Fred. S. James & Co., Inc.
of Virginia
1600 Wilson Boulevard, Suite 1100
Arlington, VA 22209-2582

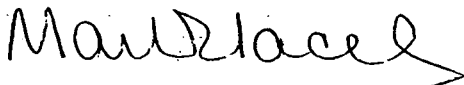
RE: American Red Cross

Dear Bruce:

Following my letter of December 29, 1987, attached is a schedule for each of the nine scenarios showing the first year cash outlay for both the proposed captive as well as the American Red Cross National Headquarters. I believe this is what Greg Daniel's is looking for.

Let me know if you have any questions.

Very truly yours,



Martin I. Nadel
Assistant Vice President
Captive Development
& Planning Division

MIN/mr

cc: W. Moll

SFC-ARC-D000562

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 1

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	1	18
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	126	2,519
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	45	33	9	5	92
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,300	936	261	132	2,714
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	19	492
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,218	1,821	408	1,289	5,821
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,000	11,986
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,000	17,011

SFC-ARC-D000563

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 2

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
LINE OF BUSINESS						
(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	1	18
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	126	2,519
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,255	903	252	127	2,622
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	19	492
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,173	1,788	399	1,284	5,729
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,000	11,986
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,000	17,011

SFC-ARC-D000564

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 3

	(1)	(2)	(3)	(4)	(5)	
LINE OF BUSINESS						
LINE NO.	EXPENSE PAID BY: EXPENSE	WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	1	18
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	126	2,519
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	16	11	3	2	32
	SUBTOTAL	1,271	914	255	129	2,654
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	19	492
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,189	1,799	402	1,286	5,761
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,000	11,986
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,000	17,011

SFC-ARC-D000565

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 4

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
LINE OF BUSINESS						

(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	45	33	9	84	171
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,300	936	261	715	3,297

(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	312	225	63	--	600
(10)	BOARDS AND BUREAUS	305	131	37	--	473
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,233	1,832	411	1,724	6,285
=====						
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,598	3,533	884	2,852	11,867
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,598	3,533	884	2,852	16,892
=====						

SFC-ARC-D000566

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 5

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
LINE OF BUSINESS -----						
(1) A:	RED CROSS CAPTIVE					
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,255	903	252	631	3,126
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	312	225	63	--	600
(10)	BOARDS AND BUREAUS	305	131	37	--	473
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,188	1,799	402	1,640	6,114
=====						
(13) B:	RED CROSS NAT'L H.Q.					
(14)	PREMIUMS/SIR	4,598	3,533	884	2,852	11,867
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,598	3,533	884	2,852	16,892
=====						

SFC-ARC-D000567

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 6

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
LINE OF BUSINESS						

(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	13	10	3	22	48
	SUBTOTAL	1,268	913	255	653	3,174

(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	312	225	63	--	600
(10)	BOARDS AND BUREAUS	305	131	37	--	473
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,201	1,809	405	1,662	6,162
=====						
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,598	3,533	884	2,852	11,867
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,598	3,533	884	2,852	16,892
=====						

SFC-ARC-D000568

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 7

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	45	32	9	21	107
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,300	935	261	652	3,233
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	92	565
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,218	1,820	408	1,882	6,413
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,073	12,059
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,073	17,084

SFC-ARC-D000569

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 8

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	--	--	--	--	--
	SUBTOTAL	1,255	903	252	631	3,126
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	92	565
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,173	1,788	399	1,861	6,306
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,073	12,059
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,073	17,084

SFC-ARC-D000570

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY FOR THE
 PROPOSED CAPTIVE INSURANCE COMPANY PROGRAM
 PRIMARY CASUALTY PROGRAM FOR WORKERS' COMP.,
 AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE AND
 GENERAL LIABILITY (INCLUDING STRESS AREAS OF
 DIRECTORS AND OFFICERS, POLLUTION AND WRONGFUL TERMINATION

30-Dec-87

SCENARIO 9

LINE NO.	EXPENSE PAID BY: EXPENSE	(1)	(2)	(3)	(4)	(5)
		WORKERS' COMP. (\$000)	AUTO LIABILITY (\$000)	AUTO Phy.D. (\$000)	GENERAL LIABILITY (\$000)	TOTAL (\$000)
LINE OF BUSINESS						

(1) A: RED CROSS CAPTIVE						
(2)	CAPTIVE MANAGEMENT	--	--	--	--	40
(3)	LETTERS OF CREDIT	9	6	2	5	22
(4)	GOVERNMENT FEES	--	--	--	--	5
(5)	LEGAL/AUDIT EXP.	--	--	--	--	20
(6)	LOSSES PAID	1,246	897	250	626	3,019
(7)	TRAVEL EXPENSES	--	--	--	--	20
(8)	EXCISE TAXES	--	--	--	--	--
(9)	STATE PREMIUM TAX	14	11	3	8	36
	SUBTOTAL	1,269	914	255	639	3,162
(8)	CLAIMS HANDLING	250	180	50	109	589
(9)	FRONT FEES	297	214	60	129	700
(10)	BOARDS AND BUREAUS	305	131	37	92	565
(11)	REINSURANCE CHARGES	66	360	--	900	1,326
(12)	TOTAL	2,187	1,799	402	1,869	6,342
=====						
(13) B: RED CROSS NAT'L H.Q.						
(14)	PREMIUMS/SIR	4,583	3,522	881	3,073	12,059
(15)	CAPITALIZATION	--	--	--	--	5,000
(16)	BROKERAGE FEES	--	--	--	--	TBA
(17)	LETTERS OF CREDIT	--	--	--	--	25
(18)	TOTAL	4,583	3,522	881	3,073	17,084
=====						

SFC-ARC-D000571

James

SCENARIO 1

SFC-ARC-D000572

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BERMUDA DOMICILE
SCENARIO 1

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$10,515	\$10,515	\$10,515	\$10,515	\$10,515
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	492	492	492	492	492
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,781	\$1,781	\$1,781	\$1,781	\$1,781
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408

SFC-ARC-D000573

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BERMUDA DOMICILE
SCENARIO 1

	INCOME STATEMENT (000)				
	1988	1989	1990	1991	1992
Premiums Booked	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Excise Taxes	92	92	92	92	92
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	92	92	92	92	92
Loss Experience:					
Losses Paid	2,519	3,926	4,667	5,408	6,000
Change in Unpaid Claims Reserve	2,296	2,074	2,000	1,630	1,111
Change in IBNR Reserve	2,593	1,408	741	370	296
Total Losses Incurred - Net of Reins. Recov.	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Pure Underwriting Gain	(\$92)	(\$92)	(\$92)	(\$92)	(\$92)
Investment Profits Allocated to Underwriting	127	347	528	679	799
Total Profit Attributed to Underwriting	\$35	\$255	\$436	\$587	\$707
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	18	31	42	49	54
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	103	116	127	134	139
Net Profit Attributed to Captive	(\$69)	\$138	\$310	\$453	\$568
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	81	452	642	806	942
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	81	452	642	806	942
Stockholder Dividends Declared					
Change in Retained Earnings	\$81	\$452	\$642	\$806	\$942
Retained Earnings:					
Beginning of Year	0	81	533	1,176	1,982
End of Year	81	533	1,176	1,982	2,924

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BERMUDA DOMICILE
SCENARIO 1

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$190	\$132	\$166	\$194	\$217
Certificates of Deposit	8,281	11,496	14,306	16,616	18,555
Bonds and Other Investments	941	1,292	1,607	1,867	2,085
Total Cash and Other Investments	\$9,413	\$12,920	\$16,079	\$18,676	\$20,857
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	420	654	778	901	1,000
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	138	330	431	516	587
Total Other Assets	\$5,558	\$5,985	\$6,208	\$6,417	\$6,587
Total Assets	\$14,971	\$18,904	\$22,288	\$25,094	\$27,443
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,296	\$4,371	\$6,371	\$8,001	\$9,112
Reserve for IBNR	2,593	4,000	4,741	5,111	5,408
Total Loss Reserves	\$4,889	\$8,371	\$11,112	\$13,112	\$14,520
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$4,889	\$8,371	\$11,112	\$13,112	\$14,520
Other Payables	0	0	0	0	0
Total Liabilities	4,889	8,371	11,112	13,112	14,520
Shareholders' Equity					
Retained Earnings	81	533	1,176	1,982	2,924
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,081	\$10,533	\$11,176	\$11,982	\$12,924
Total Liabilities and Shareholders' Equity	\$14,971	\$18,904	\$22,288	\$25,094	\$27,443

SFC-ARC-D000575

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BERMUDA DOMICILE
SCENARIO 1

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,408	7,408	7,408	7,408	7,408
Funds Retained by Ceding Company (Chg in Escr	420	235	123	123	99
Excise Taxes Paid	92	92	92	92	92
Net Funds Received	6,896	7,081	7,193	7,193	7,217
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,519	3,926	4,667	5,408	6,000
Total Payments	2,519	3,926	4,667	5,408	6,000
Net Cashflows from Underwriting	4,378	3,155	2,526	1,785	1,217
Invest Income Received	138	468	761	946	1,103
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	18	31	42	49	54
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	103	116	127	134	139
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,413	3,507	3,160	2,597	2,180
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,413	3,507	3,160	2,597	2,180
Application of Funds:					
Purchase of Investments	4,322	3,566	3,125	2,570	2,157
Stockholder Dividends Paid					
Total Funds Applied	4,322	3,566	3,125	2,570	2,157
Change in Cash Position	90	(58)	34	27	23
Cash: Beginning of Period	100	190	132	166	194
End of Period	190	132	166	194	217

James

SCENARIO 2

SFC-ARC-D000577

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BARBADOS DOMICILE
SCENARIO 2

(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Total Premiums	\$10,515	\$10,515	\$10,515	\$10,515	\$10,515
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	492	492	492	492	492
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Program Expenses	\$1,781	\$1,781	\$1,781	\$1,781	\$1,781
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
	-----	-----	-----	-----	-----
Net Premiums Available to Pay Losses	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408

SFC-ARC-D000578

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BARBADOS DOMICILE
SCENARIO 2

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Excise Taxes	0	0	0	0	0
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,519	3,926	4,667	5,408	6,000
Change in Unpaid Claims Reserve	2,296	2,074	2,000	1,630	1,111
Change in IBNR Reserve	2,593	1,408	741	370	296
Total Losses Incurred - Net of Reins. Recov.	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Pure Underwriting Gain	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Investment Profits Allocated to Underwriting	129	355	543	700	827
Total Profit Attributed to Underwriting	\$129	\$355	\$543	\$700	\$827
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	18	31	42	49	54
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	103	116	127	134	139
Net Profit Attributed to Captive	\$26	\$239	\$416	\$565	\$687
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	176	552	749	918	1,062
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	176	552	749	918	1,062
Stockholder Dividends Declared					
Change in Retained Earnings	\$176	\$552	\$749	\$918	\$1,062
Retained Earnings:					
Beginning of Year	0	176	728	1,477	2,395
End of Year	176	728	1,477	2,395	3,457

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BARBADOS DOMICILE
SCENARIO 2

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$192	\$134	\$169	\$198	\$222
Certificates of Deposit	8,363	11,666	14,567	16,975	19,017
Bonds and Other Investments	950	1,311	1,637	1,907	2,137
	-----	-----	-----	-----	-----
Total Cash and Other Investments	\$9,506	\$13,111	\$16,373	\$19,080	\$21,376
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	420	654	778	901	1,000
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	140	334	438	526	601
	-----	-----	-----	-----	-----
Total Other Assets	\$5,559	\$5,989	\$6,216	\$6,428	\$6,601
	-----	-----	-----	-----	-----
Total Assets	\$15,065	\$19,099	\$22,589	\$25,507	\$27,977
	-----	-----	-----	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,296	\$4,371	\$6,371	\$8,001	\$9,112
Reserve for IBNR	2,593	4,000	4,741	5,111	5,408
	-----	-----	-----	-----	-----
Total Loss Reserves	\$4,889	\$8,371	\$11,112	\$13,112	\$14,520
Reserve for Unearned Premiums	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Underwriting Reserves	\$4,889	\$8,371	\$11,112	\$13,112	\$14,520
Other Payables	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Liabilities	4,889	8,371	11,112	13,112	14,520
	-----	-----	-----	-----	-----
Shareholders' Equity					
Retained Earnings	176	728	1,477	2,395	3,457
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
	-----	-----	-----	-----	-----
Total Equity	\$10,176	\$10,728	\$11,477	\$12,395	\$13,457
	-----	-----	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$15,065	\$19,099	\$22,589	\$25,507	\$27,977
	-----	-----	-----	-----	-----

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
BARBADOS DOMICILE
SCENARIO 2

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,408	7,408	7,408	7,408	7,408
Funds Retained by Ceding Company (Chg in Eschr	420	235	123	123	99
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	6,988	7,173	7,284	7,284	7,309
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,519	3,926	4,667	5,408	6,000
Total Payments	2,519	3,926	4,667	5,408	6,000
Net Cashflows from Underwriting	4,469	3,247	2,617	1,877	1,309
Invest Income Received	140	474	772	964	1,127
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	18	31	42	49	54
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	103	116	127	134	139
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,506	3,605	3,263	2,706	2,296
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,506	3,605	3,263	2,706	2,296
Application of Funds:					
Purchase of Investments	4,414	3,663	3,227	2,678	2,272
Stockholder Dividends Paid					
Total Funds Applied	4,414	3,663	3,227	2,678	2,272
Change in Cash Position	92	(58)	35	28	24
Cash: Beginning of Period	100	192	134	169	198
End of Period	192	134	169	198	222

James

SCENARIO 3

SFC-ARC-D000582

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
VERMONT DOMICILE
SCENARIO 3

(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Total Premiums	\$10,515	\$10,515	\$10,515	\$10,515	\$10,515
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	492	492	492	492	492
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Program Expenses	\$1,781	\$1,781	\$1,781	\$1,781	\$1,781
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
	-----	-----	-----	-----	-----
Net Premiums Available to Pay Losses	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408

SFC-ARC-D000583

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
VERMONT DOMICILE
SCENARIO 3

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Excise Taxes	0	0	0	0	0
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,519	3,926	4,667	5,408	6,000
Change in Unpaid Claims Reserve	2,296	2,074	2,000	1,630	1,111
Change in IBNR Reserve	2,593	1,408	741	370	296
Total Losses Incurred - Net of Reins. Recov.	\$7,408	\$7,408	\$7,408	\$7,408	\$7,408
Pure Underwriting Gain	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Investment Profits Allocated to Underwriting	129	353	539	694	819
Total Profit Attributed to Underwriting	\$129	\$353	\$538	\$694	\$819
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	32	32	32	32	32
Charges for Banking Services (LOC, etc.)	18	31	42	49	54
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	130	143	153	161	166
Net Profit Attributed to Captive	(\$1)	\$210	\$385	\$533	\$653
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	149	523	718	886	1,027
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	149	523	718	886	1,027
Stockholder Dividends Declared					
Change in Retained Earnings	\$149	\$523	\$718	\$886	\$1,027
Retained Earnings:					
Beginning of Year	0	149	672	1,390	2,276
End of Year	149	672	1,390	2,276	3,303

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
VERMONT DOMICILE
SCENARIO 3

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,408	7,408	7,408	7,408	7,408
Funds Retained by Ceding Company (Chg in Escr	420	235	123	123	99
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	6,988	7,173	7,284	7,284	7,309
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,519	3,926	4,667	5,408	6,000
Total Payments	2,519	3,926	4,667	5,408	6,000
Net Cashflows from Underwriting	4,469	3,247	2,617	1,877	1,309
Invest Income Received	139	472	769	959	1,120
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	32	32	32	32	32
Charges for Banking Services	18	31	42	49	54
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	130	143	153	161	166
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,479	3,577	3,233	2,675	2,263
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,479	3,577	3,233	2,675	2,263
Application of Funds:					
Purchase of Investments	4,387	3,635	3,198	2,647	2,239
Stockholder Dividends Paid					
Total Funds Applied	4,387	3,635	3,198	2,647	2,239
Change in Cash Position	92	(58)	35	28	24
Cash: Beginning of Period	100	192	133	168	197
End of Period	192	133	168	197	220

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM
\$100,000 DEDUCTIBLE ON G.L. ONLY
VERMONT DOMICILE
SCENARIO 3

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	7,408	7,408	7,408	7,408	7,408
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,408	7,408	7,408	7,408	7,408
Funds Retained by Ceding Company (Chg in Eschr	420	235	123	123	99
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	6,988	7,173	7,284	7,284	7,309
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,519	3,926	4,667	5,408	6,000
Total Payments	2,519	3,926	4,667	5,408	6,000
Net Cashflows from Underwriting	4,469	3,247	2,617	1,877	1,309
Invest Income Received	139	472	769	959	1,120
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	32	32	32	32	32
Charges for Banking Services	18	31	42	49	54
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	130	143	153	161	166
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,479	3,577	3,233	2,675	2,263
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,479	3,577	3,233	2,675	2,263
Application of Funds:					
Purchase of Investments	4,387	3,635	3,198	2,647	2,239
Stockholder Dividends Paid					
Total Funds Applied	4,387	3,635	3,198	2,647	2,239
Change in Cash Position	92	(58)	35	28	24
Cash: Beginning of Period	100	192	133	168	197
End of Period	192	133	168	197	220

James

SCENARIO 4

SFC-ARC-D000587

28-Dec-87

AMERICAN RED CROSS
 FRONTED CASUALTY PROGRAM FOR
 A.L., A.Phy.D., W.C. - G.L. DIRECT
 BERMUDA DOMICILE
 SCENARIO 4

 (000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Total Premiums	\$11,867	\$11,867	\$11,867	\$11,867	\$11,867
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	473	473	473	473	473
Other Program Expenses (Front Fee)	600	600	600	600	600
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Program Expenses	\$1,662	\$1,662	\$1,662	\$1,662	\$1,662
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
	-----	-----	-----	-----	-----
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000588

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE
SCENARIO 4

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	171	171	171	171	171
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	171	171	171	171	171
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	(\$171)	(\$171)	(\$171)	(\$171)	(\$171)
Investment Profits Allocated to Underwriting	151	413	628	806	947
Total Profit Attributed to Underwriting	(\$20)	\$242	\$458	\$635	\$776
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	107	123	135	144	150
Net Profit Attributed to Captive	(\$127)	\$120	\$323	\$491	\$626
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	23	433	655	844	1,001
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	23	433	655	844	1,001
Stockholder Dividends Declared					
Change in Retained Earnings	\$23	\$433	\$655	\$844	\$1,001
Retained Earnings:					
Beginning of Year	0	23	457	1,112	1,956
End of Year	23	457	1,112	1,956	2,957

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE
SCENARIO 4

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$207	\$147	\$186	\$218	\$244
Certificates of Deposit	9,000	12,762	16,030	18,694	20,907
Bonds and Other Investments	1,023	1,434	1,801	2,100	2,349
Total Cash and Other Investments	\$10,230	\$14,342	\$18,018	\$21,012	\$23,500
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	150	363	480	579	661
Total Other Assets	\$5,653	\$6,148	\$6,413	\$6,660	\$6,859
Total Assets	\$15,883	\$20,490	\$24,430	\$27,672	\$30,360
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Other Payables	0	0	0	0	0
Total Liabilities	5,860	10,033	13,319	15,716	17,403
Shareholders' Equity					
Retained Earnings	23	457	1,112	1,956	2,957
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,023	\$10,457	\$11,112	\$11,956	\$12,957
Total Liabilities and Shareholders' Equity	\$15,883	\$20,490	\$24,430	\$27,672	\$30,360

SFC-ARC-D000590

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE
SCENARIO 4

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Escr)	503	281	148	148	118
Excise Taxes Paid	171	171	171	171	171
Net Funds Received	8,205	8,427	8,560	8,560	8,590
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,186	3,721	2,967	2,079	1,398
Invest Income Received	150	514	844	1,060	1,240
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	107	123	135	144	150
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,230	4,112	3,675	2,995	2,488
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,230	4,112	3,675	2,995	2,488
Application of Funds:					
Purchase of Investments	5,123	4,173	3,636	2,963	2,462
Stockholder Dividends Paid					
Total Funds Applied	5,123	4,173	3,636	2,963	2,462
Change in Cash Position	107	(60)	40	31	26
Cash: Beginning of Period	100	207	147	186	218
End of Period	207	147	186	218	244

James

SCENARIO 5

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BARBADOS DOMICILE
SCENARIO 5

(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Total Premiums	\$11,867	\$11,867	\$11,867	\$11,867	\$11,867
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	473	473	473	473	473
Other Program Expenses (Front Fee)	600	600	600	600	600
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Program Expenses	\$1,662	\$1,662	\$1,662	\$1,662	\$1,662
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
	-----	-----	-----	-----	-----
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000593

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BARBADOS DOMICILE
SCENARIO 5

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	0	0	0	0	0
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	156	429	655	844	998
Total Profit Attributed to Underwriting	\$156	\$429	\$655	\$844	\$998
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	107	123	135	144	150
Net Profit Attributed to Captive	\$49	\$306	\$520	\$700	\$848
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	199	620	853	1,053	1,222
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	199	620	853	1,053	1,222
Stockholder Dividends Declared					
Change in Retained Earnings	\$199	\$620	\$853	\$1,053	\$1,222
Retained Earnings:					
Beginning of Year	0	199	818	1,671	2,724
End of Year	199	818	1,671	2,724	3,946

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BARBADOS DOMICILE
SCENARIO 5

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$210	\$150	\$192	\$225	\$254
Certificates of Deposit	9,153	13,077	16,516	19,360	21,765
Bonds and Other Investments	1,040	1,469	1,856	2,175	2,446
Total Cash and Other Investments	\$10,403	\$14,696	\$18,563	\$21,761	\$24,464
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	153	371	494	599	686
Total Other Assets	\$5,656	\$6,155	\$6,426	\$6,679	\$6,885
Total Assets	\$16,059	\$20,852	\$24,989	\$28,440	\$31,349
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Other Payables	0	0	0	0	0
Total Liabilities	5,860	10,033	13,319	15,716	17,403
Shareholders' Equity					
Retained Earnings	199	818	1,671	2,724	3,946
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,199	\$10,818	\$11,671	\$12,724	\$13,946
Total Liabilities and Shareholders' Equity	\$16,059	\$20,852	\$24,989	\$28,440	\$31,349

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BARBADOS DOMICILE
SCENARIO 5

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Escr	503	281	148	148	118
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,376	8,598	8,731	8,731	8,761
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,357	3,892	3,137	2,249	1,569
Invest Income Received	153	524	865	1,092	1,285
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	107	123	135	144	150
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,403	4,293	3,867	3,198	2,703
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,403	4,293	3,867	3,198	2,703
Application of Funds:					
Purchase of Investments	5,293	4,353	3,825	3,164	2,675
Stockholder Dividends Paid					
Total Funds Applied	5,293	4,353	3,825	3,164	2,675
Change in Cash Position	110	(60)	42	34	28
Cash: Beginning of Period	100	210	150	192	225
End of Period	210	150	192	225	254

James

SCENARIO 6

SFC-ARC-D000597

28-Dec-87

AMERICAN RED CROSS
 FRONTED CASUALTY PROGRAM FOR
 A.L., A.Phy.D., W.C. - G.L. DIRECT
 VERMONT DOMICILE
 SCENARIO 6

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$11,867	\$11,867	\$11,867	\$11,867	\$11,867
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	473	473	473	473	473
Other Program Expenses (Front Fee)	600	600	600	600	600
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,662	\$1,662	\$1,662	\$1,662	\$1,662
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000598

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Ph.D., W.C. - G.L. DIRECT
VERMONT DOMICILE
SCENARIO 6

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	0	0	0	0	0
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	154	425	648	835	985
Total Profit Attributed to Underwriting	\$155	\$425	\$648	\$835	\$985
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	48	48	48	48	48
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	150	166	178	187	193
Net Profit Attributed to Captive	\$5	\$259	\$470	\$648	\$792
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	155	573	803	1,001	1,166
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	155	573	803	1,001	1,166
Stockholder Dividends Declared					
Change in Retained Earnings	\$155	\$573	\$803	\$1,001	\$1,166
Retained Earnings:					
Beginning of Year	0	155	727	1,530	2,531
End of Year	155	727	1,530	2,531	3,697

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
VERMONT DOMICILE
SCENARIO 6

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$209	\$149	\$190	\$224	\$251
Certificates of Deposit	9,114	12,997	16,393	19,192	21,549
Bonds and Other Investments	1,036	1,460	1,842	2,156	2,421
Total Cash and Other Investments	\$10,359	\$14,607	\$18,426	\$21,572	\$24,221
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	152	369	490	594	680
Total Other Assets	\$5,655	\$6,153	\$6,423	\$6,674	\$6,878
Total Assets	\$16,015	\$20,760	\$24,849	\$28,246	\$31,100
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Other Payables	0	0	0	0	0
Total Liabilities	5,860	10,033	13,319	15,716	17,403
Shareholders' Equity					
Retained Earnings	155	727	1,530	2,531	3,697
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,155	\$10,727	\$11,530	\$12,531	\$13,697
Total Liabilities and Shareholders' Equity	\$16,015	\$20,760	\$24,849	\$28,246	\$31,100

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
VERMONT DOMICILE
SCENARIO 6

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Eschr	503	281	148	148	118
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,376	8,598	8,731	8,731	8,761
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,357	3,892	3,137	2,249	1,569
Invest Income Received	152	521	860	1,084	1,274
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	48	48	48	48	48
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	150	166	178	187	193
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,359	4,248	3,819	3,147	2,649
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,359	4,248	3,819	3,147	2,649
Application of Funds:					
Purchase of Investments	5,250	4,308	3,778	3,114	2,621
Stockholder Dividends Paid					
Total Funds Applied	5,250	4,308	3,778	3,114	2,621
Change in Cash Position	109	(60)	41	33	28
Cash: Beginning of Period	100	209	149	190	224
End of Period	209	149	190	224	251

James

SCENARIO 7

SFC-ARC-D000602

28-Dec-87

AMERICAN RED CROSS
 FRONTED CASUALTY PROGRAM FOR
 A.L., A.Phy.D., W.C., AND G.L.
 BERMUDA DOMICILE
 SCENARIO 7

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$12,059	\$12,059	\$12,059	\$12,059	\$12,059
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	565	565	565	565	565
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,854	\$1,854	\$1,854	\$1,854	\$1,854
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000603

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BERMUDA DOMICILE
SCENARIO 7

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	107	107	107	107	107
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	107	107	107	107	107
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	(\$107)	(\$107)	(\$107)	(\$107)	(\$107)
Investment Profits Allocated to Underwriting	153	419	638	820	966
Total Profit Attributed to Underwriting	\$45	\$311	\$531	\$713	\$859
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	107	123	135	144	150
Net Profit Attributed to Captive	(\$62)	\$189	\$396	\$569	\$708
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	88	502	728	922	1,083
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	88	502	728	922	1,083
Stockholder Dividends Declared					
Change in Retained Earnings	\$88	\$502	\$728	\$922	\$1,083
Retained Earnings:					
Beginning of Year	0	88	591	1,319	2,241
End of Year	88	591	1,319	2,241	3,324

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BERMUDA DOMICILE
SCENARIO 7

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$208	\$148	\$188	\$221	\$248
Certificates of Deposit	9,057	12,879	16,210	18,941	21,225
Bonds and Other Investments	1,029	1,447	1,821	2,128	2,385
Total Cash and Other Investments	\$10,294	\$14,474	\$18,220	\$21,290	\$23,858
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	151	366	485	587	670
Total Other Assets	\$5,654	\$6,150	\$6,418	\$6,667	\$6,869
Total Assets	\$15,948	\$20,624	\$24,638	\$27,957	\$30,727
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Other Payables	0	0	0	0	0
Total Liabilities	5,860	10,033	13,319	15,716	17,403
Shareholders' Equity					
Retained Earnings	88	591	1,319	2,241	3,324
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,088	\$10,591	\$11,319	\$12,241	\$13,324
Total Liabilities and Shareholders' Equity	\$15,948	\$20,624	\$24,638	\$27,957	\$30,727

SFC-ARC-D000605

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BERMUDA DOMICILE
SCENARIO 7

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Escr	503	281	148	148	118
Excise Taxes Paid	107	107	107	107	107
Net Funds Received	8,269	8,491	8,624	8,624	8,653
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,250	3,785	3,030	2,142	1,461
Invest Income Received	151	517	852	1,072	1,257
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	107	123	135	144	150
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,294	4,180	3,747	3,070	2,568
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,294	4,180	3,747	3,070	2,568
Application of Funds:					
Purchase of Investments	5,186	4,240	3,706	3,038	2,541
Stockholder Dividends Paid					
Total Funds Applied	5,186	4,240	3,706	3,038	2,541
Change in Cash Position	108	(60)	40	32	27
Cash: Beginning of Period	100	208	148	188	221
End of Period	208	148	188	221	248

James

SCENARIO 8

SFC-ARC-D000607

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BARBADOS DOMICILE
SCENARIO 8

(000)

	1988	1989	1990	1991	1992
Total Premiums	\$12,059	\$12,059	\$12,059	\$12,059	\$12,059
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	565	565	565	565	565
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,854	\$1,854	\$1,854	\$1,854	\$1,854
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000608

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BARBADOS DOMICILE
SCENARIO 8

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	0	0	0	0	0
Reinsurance Charges					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	156	429	655	844	998
Total Profit Attributed to Underwriting	\$156	\$429	\$655	\$844	\$998
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	107	123	135	144	150
Net Profit Attributed to Captive	\$49	\$306	\$520	\$700	\$848
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	199	620	853	1,053	1,222
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	199	620	853	1,053	1,222
Stockholder Dividends Declared					
Change in Retained Earnings	\$199	\$620	\$853	\$1,053	\$1,222
Retained Earnings:					
Beginning of Year	0	199	818	1,671	2,724
End of Year	199	818	1,671	2,724	3,947

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BARBADOS DOMICILE
SCENARIO 8

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$210	\$150	\$192	\$225	\$254
Certificates of Deposit	9,153	13,077	16,516	19,361	21,765
Bonds and Other Investments	1,040	1,469	1,856	2,175	2,446
	-----	-----	-----	-----	-----
Total Cash and Other Investments	\$10,403	\$14,696	\$18,564	\$21,761	\$24,465
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	153	371	494	599	686
	-----	-----	-----	-----	-----
Total Other Assets	\$5,656	\$6,155	\$6,426	\$6,679	\$6,885
	-----	-----	-----	-----	-----
Total Assets	\$16,059	\$20,852	\$24,990	\$28,440	\$31,349
	-----	-----	-----	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
	-----	-----	-----	-----	-----
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
	-----	-----	-----	-----	-----
Other Payables	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Liabilities	5,860	10,033	13,319	15,716	17,403
	-----	-----	-----	-----	-----
Shareholders' Equity					
Retained Earnings	199	818	1,671	2,724	3,947
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
	-----	-----	-----	-----	-----
Total Equity	\$10,199	\$10,818	\$11,671	\$12,724	\$13,947
	-----	-----	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$16,059	\$20,852	\$24,990	\$28,440	\$31,349
	-----	-----	-----	-----	-----

SFC-ARC-D000610

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
BARBADOS DOMICILE
SCENARIO 8

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Escr	503	281	148	148	118
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,376	8,598	8,731	8,731	8,761
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,357	3,892	3,137	2,249	1,569
Invest Income Received	153	524	865	1,092	1,285
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	107	123	135	144	150
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,403	4,293	3,867	3,198	2,703
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,403	4,293	3,867	3,198	2,703
Application of Funds:					
Purchase of Investments	5,293	4,353	3,825	3,164	2,675
Stockholder Dividends Paid					
Total Funds Applied	5,293	4,353	3,825	3,164	2,675
Change in Cash Position	110	(60)	42	34	28
Cash: Beginning of Period	100	210	150	192	225
End of Period	210	150	192	225	254

James

SCENARIO 9

SFC-ARC-D000612

28-Dec-87

AMERICAN RED CROSS
 FRONTED CASUALTY PROGRAM FOR
 A.L., A.Phy.D., W.C., AND G.L.
 VERMONT DOMICILE
 SCENARIO 9

 (000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
Total Premiums	\$12,059	\$12,059	\$12,059	\$12,059	\$12,059
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	565	565	565	565	565
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Program Expenses	\$1,854	\$1,854	\$1,854	\$1,854	\$1,854
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
	-----	-----	-----	-----	-----
Net Premiums Available to Pay Losses	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879

SFC-ARC-D000613

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
VERMONT DOMICILE
SCENARIO 9

INCOME STATEMENT
(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	3,019	4,706	5,594	6,482	7,192
Change in Unpaid Claims Reserve	2,752	2,486	2,397	1,953	1,332
Change in IBNR Reserve	3,108	1,687	888	444	355
Total Losses Incurred - Net of Reins. Recov.	\$8,879	\$8,879	\$8,879	\$8,879	\$8,879
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	155	426	650	837	989
Total Profit Attributed to Underwriting	\$155	\$426	\$650	\$837	\$989
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	36	36	36	36	36
Charges for Banking Services (LOC, etc.)	22	38	50	59	65
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	138	154	166	175	181
Net Profit Attributed to Captive	\$17	\$272	\$484	\$662	\$807
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	167	586	817	1,015	1,182
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	167	586	817	1,015	1,182
Stockholder Dividends Declared					
Change in Retained Earnings	\$167	\$586	\$817	\$1,015	\$1,182
Retained Earnings:					
Beginning of Year	0	167	752	1,569	2,584
End of Year	167	752	1,569	2,584	3,766

28-Dec-87

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C., AND G.L.
VERMONT DOMICILE
SCENARIO 9

BALANCE SHEET
(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$210	\$149	\$191	\$224	\$252
Certificates of Deposit	9,125	13,019	16,427	19,239	21,608
Bonds and Other Investments	1,037	1,463	1,846	2,162	2,428
Total Cash and Other Investments	\$10,371	\$14,632	\$18,464	\$21,624	\$24,288
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	503	784	932	1,080	1,199
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	152	370	491	595	682
Total Other Assets	\$5,656	\$6,154	\$6,424	\$6,675	\$6,880
Total Assets	\$16,027	\$20,786	\$24,887	\$28,300	\$31,169
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,752	\$5,239	\$7,636	\$9,589	\$10,921
Reserve for IBNR	3,108	4,795	5,683	6,127	6,482
Total Loss Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,860	\$10,033	\$13,319	\$15,716	\$17,403
Other Payables	0	0	0	0	0
Total Liabilities	5,860	10,033	13,319	15,716	17,403
Shareholders' Equity					
Retained Earnings	167	752	1,569	2,584	3,766
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,167	\$10,752	\$11,569	\$12,584	\$13,766
Total Liabilities and Shareholders' Equity	\$16,027	\$20,786	\$24,887	\$28,300	\$31,169

SFC-ARC-D000615

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Ph.D., W.C., AND G.L.
VERMONT DOMICILE
SCENARIO 9

CASH FLOW STATEMENT
(000)

	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	8,879	8,879	8,879	8,879	8,879
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,879	8,879	8,879	8,879	8,879
Funds Retained by Ceding Company (Chg in Escr	503	281	148	148	118
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,376	8,598	8,731	8,731	8,761
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	3,019	4,706	5,594	6,482	7,192
Total Payments	3,019	4,706	5,594	6,482	7,192
Net Cashflows from Underwriting	5,357	3,892	3,137	2,249	1,569
Invest Income Received	152	522	861	1,086	1,277
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Premium Tax to Domicile State	36	36	36	36	36
Charges for Banking Services	22	38	50	59	65
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	138	154	166	175	181
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,371	4,260	3,832	3,161	2,664
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,371	4,260	3,832	3,161	2,664
Application of Funds:					
Purchase of Investments	5,262	4,320	3,791	3,127	2,636
Stockholder Dividends Paid					
Total Funds Applied	5,262	4,320	3,791	3,127	2,636
Change in Cash Position	110	(60)	41	33	28
Cash: Beginning of Period	100	210	149	191	224
End of Period	210	149	191	224	252

James

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
 Telex 844188

CAPTIVE DEVELOPMENT & PLANNING DIVISION

December 29, 1987

Mr. P. Bruce Finnerty
 Vice President
 Fred. S. James & Co., Inc. of Virginia
 1600 Wilson Boulevard
 Arlington, Virginia 22209-2582

Re: American Red Cross

Dear Bruce:

Attached are the revised pro-forma financial statements based on the information obtained during our meeting with Messrs.: Raymond and Williamson. As agreed, we have chosen three basic situations for this study: Situation 1- A fronted casualty program, with the general liability subject to a \$100,000 S.I.R.; Situation 2- A fronted program for automobile liability, automobile physical damage and workers' compensation. The general liability will be written on a direct basis; and Situation 3- A fronted program for all lines. For each situation we have looked at three possible domiciles, Bermuda, Barbados and Vermont. Therefore, in total there are nine scenarios attached.

The retained earnings develop as follows:

(\$000)	Policy Years				
	1988	1989	1990	1991	1992
Situation 1					
Sc. 1 - Bermuda	81	533	1,176	1,982	2,924
Sc. 2 - Barbados	176	728	1,477	2,395	3,457
Sc. 3 - Vermont	149	672	1,390	2,276	3,303
Situation 2					
Sc. 4 - Bermuda	23	457	1,112	1,956	2,957
Sc. 5 - Barbados	199	818	1,671	2,724	3,946
Sc. 6 - Vermont	155	727	1,530	2,531	3,697
Situation 3					
Sc. 7 - Bermuda	88	591	1,319	2,241	3,324
Sc. 8 - Barbados	199	818	1,671	2,724	3,947
Sc. 9 - Vermont	167	752	1,569	2,584	3,766

SFC-ARC-D000617

The following assumptions were used for this analysis.

Situation 1 - A fronted casualty program with the general liability subject to a \$100,000 self-insurance reserve.

(\$000)	Captive Domiciled In:		
	Scenario 1 Bermuda	Scenario 2 Barbados	Scenario 3 Vermont
Incurred Losses(1)	7,408	7,408	7,408
State Taxes:(2)			
Auto Liability	131	131	131
Auto Phy.D.	37	37	37
General Liability	19	19	19
Workers' Comp.	305	305	305
Basic Charge(3)	700	700	700
Claims Handling(3)	589	589	589
F.E.T.(4)	175	--	--
Premium Tax(5)	--	--	32
Reinsurance	1,326	1,326	1,326
Gross Premium	10,515	10,515	10,515
	1,321,250		
	<u>11,986</u>		<u>11,986</u>
Notes:	+ 92		+ 32
TOTAL COST	12,074	11,986	12,018

Handwritten notes:
 175
 792,000
 -19,000
 60,000
 Savings
 SER
 Arrangement

Handwritten notes:
 48
 32
 716,000

- (1) Total incurred losses at a \$1.0 million loss limit less incurred losses for general liability at a \$100,00 loss limit. The incurred losses for general liability at a \$100,000 loss limit is \$1.221 million, plus \$250,000 for the stress areas of Directors and Officers, Pollution and Wrongful Termination.
- (2) Weighted average tax rates as provided by AIGRM.
- (3) As supplied by AIGRM.
- (4) F.E.T. - 1% Reinsurance, 4% Direct, calculated on gross premiums less reinsurance.
- (5) Premium Tax - .8% Direct, .6% Reinsurance.

Situation 2 - A fronted program for automobile liability, automobile physical damage and workers' compensation. The general liability will be written on a direct basis.

(\$000)	Captive Domiciled In:		
	Scenario 4 Bermuda	Scenario 5 Barbados	Scenario 6 Vermont
Incurring Losses (1)	8,879	8,879	8,879
State Taxes: (2)			
Auto Liability	131	131	131
Auto Phy.D.	37	37	37
Workers' Comp.	305	305	305
Basic Charge (3)	600	600	600
Claims Handling (3)	589	589	589
F.E.T. (4)	171	--	--
Premium Tax (5)	--	--	48
Reinsurance	1,326	1,326	1,326
Gross Premium	11,867	11,867	11,867

Notes:

- (1) The incurred losses at a \$1.0 million loss limit plus \$250,000 for losses in the stress areas of Directors and Officers, Pollution and Wrongful Termination.
- (2) Weighted average tax rates as supplied by AIGRM.
- (3) As supplied by AIGRM.
- (4) F.E.T. - 1% Reinsurance, 4% Direct, calculated on gross premium less reinsurance.
- (5) Premium Tax - .8% Direct, .3% Reinsurance.

Situation 3 - A fronted program for all lines.

(\$000)	Captive Domiciled In:		
	Scenario 7 Bermuda	Scenario 8 Barbados	Scenario 9 Vermont
Incurring Losses(1)	8,879	8,879	8,879
State Taxes:(2)			
Auto Liability	131	131	131
Auto Phy.D.	37	37	37
General Liability	92 ^K	92	92
Workers' Comp.	305	305	305
Basic Charge(3)	700	700	700
Claims Handling(3)	589	589	589
F.E.T.(4)	107 ^A	--	--
Premium Tax(5)	--	--	36
Reinsurance	1,326	1,326	1,326
Gross Premium	12,059	12,059	12,059

*107
92
199
171
\$28,000
for fronting*

Notes:

- (1) The incurred losses at the \$1.0 million loss limit, plus \$250,000 for losses in the stress areas of Directors and Officers, Pollution and Wrongful Termination.
- (2) Weighted average tax rates as supplied by AIGRM.
- (3) As supplied by AIGRM.
- (4) F.E.T. - 1% Reinsurance, 4% Direct, calculated on gross premiums less reinsurance.
- (5) Premium Tax - .8% Direct, .6% Reinsurance.

Since AIDS coverage will definitely not be provided under the AIG program, the area has not been addressed in this discussion.

It should also be noted that AIG has indicated the following:

- (1) The basic charges, i.e., fronting fees are somewhat negotiable;
- (2) The reinsurance quote of \$1,326,000 will hold for 1988;
- (3) The reinsurance quote for the general liability portion of the program would not change should the coverage be provided without using a fronting carrier, i.e., on a direct basis.

All other terms and conditions of the original analysis, specifically, the payout and reporting patterns, the investment income rate and the capitalization requirements remain unchanged.

I trust the attachments are satisfactory. Let me know if you have questions.

Very truly yours,



Martin I. Nadel
Assistant Vice President

cc: B. Moll

SFC-ARC-D000621



SEP 27 1987

FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564-7442
Telex 844188
CAPTIVE DEVELOPMENT & PLANNING DIVISION

October 26, 1987

Mr. Bruce P. Finnerty
Vice President
Fred. S. James & Co., Inc. of Virginia
1600 Wilson Street
Suite 1100
Arlington, Virginia 22209-2582

Re: American Red Cross

Dear Bruce:

This letter is in response to Greg Daniel's letter to you dated September 17, 1987. We will address the questions Mr. Daniel's raised in this discussion.

Question 1: A summary of the reasons why a captive is a feasible alternative.

Many of the reasons promoting the formation of a captive insurance company have been addressed in the Preliminary Analysis dated May, 1987, specifically: Coverage, Cost, Control and Cash Flow.

However, to summarize: The formation of a captive insurance company is a decision which involves the formal transfer of insurance from the traditional market to an insurance subsidiary. The motives vary for each company or association, however the most common reasons are as follows:

- 1) To recapture premiums in excess of the predictable losses.
- 2) To obtain control over the claim reserves.
- 3) To increase cash flow.
- 4) To gain access to the reinsurance markets.
- 5) To insure unusual or uninsurable exposures.

SFC-ARC-D000622

Question 2: An outline of the methodology that will be employed to establish the captive.

Generally, the following steps must be followed when attempting to form a domestic captive insurance company. These procedures are fairly typical regardless of the domestic (on-shore) domicile selected. A local attorney's involvement is desirable.

- 1) Arrange a meeting with the Examiner or Commissioner to discuss the proposed captive facility and obtain the initial reaction as to its adequacy and acceptance by the regulator. Key officers of the parent or the association are usually required at this initial meeting.

Completion time: 1 day.

local meaning local to domicile?

- 2) Prepare the necessary documents for the incorporation process. This normally requires the services of a local lawyer who is familiar with procedure.

Completion time: 1-2 days

- 3) Complete the necessary application as dictated by the jurisdiction as well as the biographical data forms and if required, the letter of credit forms.

Completion time: 2-3 days

- 4) Complete the necessary feasibility work, such as ²⁵the loss forecast by line of business (actuarial study) and the 5-year pro-forma financial statements. A business/operations plan will also be required.

Completion time: varies, usually 3-4 weeks

- 5) Submit copies of all documentation to the Commissioner's office and include the required application fee and, if applicable, the actuarial review fee.
- 6) Have the local attorney petition and obtain the Certificate of Public Good.
- 7) Once the Certificate of Public Good has been issued and received, petition to the Secretary of State office for the incorporation of the captive.

- 8) Once the captive has been incorporated and the certificate has been received, petition to the Commissioner for the Certificate of Authority, which will permit the captive to begin operations.

Completion time: sections 5-7: 30 days (approximately)

- 9) Have the local attorney arrange for the organization board meeting to adopt and ratify the corporate resolutions, board members and their terms of service, banking arrangements, corporate seal and stock certificate forms, etc.

Completion time: 1 day

In addition, there are several other aspects which must be agreed upon during this formation process:

- 1) Selection of the captive management firm.
- 2) Selection of the CPA firm and completion of the form for authorization to perform audits.
- 3) Set-up the interim banking arrangements.
- 4) Arrange for the collection of the captive's capitalization.
- 5) Selection of the Board of Directors as well as the Corporate Officers.

The formation of a captive insurance company for an off-shore domicile also involves the services of a local attorney who is familiar with procedure. There are basically three steps to the formation process:

- 1) Pre-incorporation: During this stage, an application is made to the registrar (monetary authority). The application will include the details of the business plan as well as the feasibility study. The business plan should include such items as the structure of the program, captive retention limits, reinsurance, aggregate stop loss protection (if available), etc. The feasibility study would include the loss forecast by line of business and the five-year pro-forma financial statements. This submission is usually made through an attorney.

- 2) Incorporation: Once the application and the business plan have been approved, the certificate of incorporation is granted by the monetary authority. This step then involves the petition to the registrar's office to commence activity as a captive insurance company.
- 3) Registration: This third and final step grants authority by the registrar to the captive insurance company to commence business activity.

Similar to the on-shore procedure, it is important that a selection of captive management company is accomplished as well as banking arrangements, selection of a CPA firm to perform annual audits and the appropriate level of capitalization is raised. The time frame for captive formation is approximately 30-60 days depending on the quality of information that is submitted in the first phase, i.e., pre-incorporation.

Question 3: A recommendation regarding captive domicile.

Rather than give an absolute recommendation regarding the domicile for the proposed facility, we have prepared a comparison of three off-shore domiciles (Bermuda, Barbados and the Cayman Islands) and four domestic domiciles (Colorado, Tennessee, Vermont and Delaware). These are probably the most commonly used and most well known jurisdictions.

It should be noted that the Tax Reform Act of 1986 erased many of the benefits that heretofore were enjoyed by the captives that were domiciled off-shore. With the exception of Barbados (due to a favorable tax treaty with the United States), the off-shore domiciles are also subject to a federal excise tax of 4% on direct business and 1% on reinsurance.

Vermont and Delaware are the most popular domestic jurisdictions, however, several other states have or will be adopting similar regulation regarding the formation of captive insurance companies, such as Hawaii, Illinois and New Jersey.

A summary of the costs associated with a captive particular to Bermuda, Barbados and Vermont is as follows:

Captive Domiciled in:

(\$000)	Bermuda	Barbados	Vermont
Gross Premiums	11,487	11,487	11,487
Program Expenses	1,532	1,532	1,532
Reinsurance	1,326	1,326	1,326
Premium Tax	--	--	35
Annual Fee to Gov't	5	5	--
Federal Excise Tax	101	--	--

Claims Handling
Basic
Taxes
Excess

A final selection of a domicile would have to be made based upon both financial and political considerations. Bermuda is the oldest captive domicile and can boast of a very strong infrastructure and support services. Its reinsurance network is very extensive and it can access worldwide potential markets easily. The American Red Cross would however be subject to the Federal Excise Tax of 1%, which, based upon the projected premium level would amount to approximately \$101,000.

$8,629 \text{ losses} + 1,532 \text{ Expenses} = 10,161,000 \times .01 = 101,600$

Barbados is becoming very popular as a domicile for captive insurance companies, however it does not have a sophisticated infrastructure as Bermuda does. The biggest advantage the Barbados enjoys is the tax treaty with the United States which, in summary, eliminates the imposition of the Federal Excise Tax. For the American Red Cross, this would be a large savings. Captive domiciled in either Bermuda or the Barbados, would be subject to a nominal fee payable to the government of approximately \$5,000, in lieu of a state premium tax.

In contrast, Vermont is considered the "Bermuda" for captives domiciled on-shore. There are approximately 100 captives licensed there. Vermont offers favorable regulation regarding captive formation, as noted on the attached comparison, as well as a well-known and respected regulatory climate. Their premium tax rate for business which would be assumed through reinsurance is .3% of the gross written premiums. For the American Red Cross the premium tax would be approximately \$35,000. There is no Federal Excise Tax imposition in Vermont.

We would be pleased to discuss the attached comparison in greater detail with the American Red Cross at their convenience.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Martin I. Nadel". The signature is written in dark ink and is positioned above the typed name and title.

Martin I. Nadel
Assistant Vice President

cc: G. Daniels
B. Moll

SFC-ARC-D000627

COMPARISON OF CAPTIVE LAWS AND REGULATIONS

	(1) BARBADOS	(2) BERMUDA	(3) CAYMAN ISLANDS	(4) COLORADO	(5) TENNESSEE	(6) VERMONT	(7) DELAWARE
(1) CAPTIVE FORMS ALLOWED	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association
(2) CORPORATE FORMS ALLOWED	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual
(3) CAPITAL AND SURPLUS REQUIREMENTS	A license may be issued when the proposed company has a minimum paid in capital of \$250,000 or in the case of an approved mutual, minimum contributed reserves of \$250,000.	Companies under \$500,000 annual premium volume; \$120,000/5 to 1 ratio of premium; capital and surplus to \$6,000,000/10 to 1 ratio thereafter.	Non-life: \$120,000 Life: \$240,000	Capital \$400,000 Surplus \$350,000 Letters of Credit permitted; issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$400,000 Surplus \$350,000 Association Captive: Capital \$600,000 Surplus \$400,000 Letters of Credit permitted; issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$100,000 Surplus \$150,000 Association Captive: Capital \$400,000 Surplus \$350,000 Industrial Insured & RRG: Capital \$200,000 Surplus \$300,000 Letters of Credit permitted issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$100,000 Surplus \$150,000 Association Captive: Capital \$400,000 Surplus \$350,000 Industrial Insured & RRG: Capital \$200,000 Surplus \$300,000 Letters of Credit permitted issued by a national bank or a state bank approved by the commissioner.
(4) LINES ALLOWED TO BE WRITTEN DIRECT	All lines, but may not write Barbados sources.	All lines, but may not write Bermuda sources.	All lines, but may not write Cayman Island sources.	All commercial lines; no personal lines permitted.	Property, casualty, professional liability or errors and omissions; comprehensive general liability.	All commercial lines; except workers' comp, which must be fronted, but may be reinsured back to the captive 100%; no personal lines nor life coverages permitted.	All commercial lines; except workers' comp, which must be fronted, but may be reinsured back to the captive 100%; no personal lines nor life coverages permitted.
5) REINSURANCE	May assume and cede any reinsurance other than from Barbados sources.	May assume and cede any reinsurance other than from Bermuda sources.	May assume and cede any reinsurance other than from Cayman Island sources.	May assume only lines that can be insured directly.	May assume reinsurance only on lines permitted to write directly; may cede to Tennessee accredited reinsurers licensed in the state.	May assume any reinsurance from any source; may cede to Vermont accredited reinsurers.	May assume any reinsurance from any source; may cede to Delaware accredited reinsurers.
6) RATES AND FORMS	No approval required.	No approval required.	No approval required.	All captive insurance companies are to file with the commissioner every manner of classification, rules, and rates, every rating plan, and every modification of any of the foregoing it proposes to use. Rates by a captive insurance company shall not be excessive, inadequate, or unfairly discriminatory. All forms must be approved.	All captive insurance companies are to file with the commissioner every manner of classification, rules, and rates, every rating plan, and every modification of any of the foregoing it proposes to use. Rates by a captive insurance company shall not be excessive, inadequate, or unfairly discriminatory. All forms may require filing.	No approval required.	No approval required.
(7) ADMITTED MARKET DEFICIENCY	No deficiency required.	No deficiency required.	No deficiency required.	Must show that adequate insurance markets in the U.S. are not available.	Must show that insurance is not available or available at excessive rates.	No deficiency required.	No deficiency required.

SFC-ARC-D000628

COMPARISON OF CAPTIVE LAWS AND REGULATIONS

	(1) BARBADOS	(2) BERMUDA	(3) CAYMAN ISLANDS	(4) COLORADO	(5) TENNESSEE	(6) VERMONT	(7) DELAWARE
(8) <u>MINIMUM PREMIUM</u>	No minimum premium volume required.	No minimum premium volume required.	No minimum premium volume required.	Pure Captive: \$500,000 Association Captive: \$1,000,000	Pure Captive: \$500,000 Association Captive: \$1,000,000	No minimum premium volume required. (\$2.0 million unofficially)	No minimum premium volume required.
(9) <u>PREMIUM TAXES</u>	No income tax, capital gains tax, or other direct tax or impost shall be levied in the Barbados.	No Bermuda tax; 4% U.S. FET on direct premiums; 1% U.S. FET on reinsurance premiums.	No Cayman Island tax; 4% U.S. FET on direct premiums; 1% U.S. FET on reinsurance premiums.	1% on direct premiums only.	1% on direct premiums only.	0.8% on the first \$15.0 million of direct premiums, 0.6% on all direct premiums in excess of \$15.0 million, and 0.3% on the first \$15.0 million of reinsurance premiums, 0.2% on reinsurance premium in excess of \$15.0 million.	1% on Delaware risks only; none otherwise.
(10) <u>INVESTMENT RESTRICTIONS</u>	None	None	None	Admitted market restrictions. Captive insurance companies shall comply with the investment requirements for other insurance companies under the laws of the State of Colorado.	Must comply with admitted market requirements. A pure captive insurance company may invest in, acquire, or loan upon any security, investment, or loan with the prior approval of the commissioner. Captive insurance companies shall comply with the investment requirements for other stock casualty companies domiciled in Tenn.	An association captive insurance company shall comply with the investment market requirements. No restrictions for pure captive insurance companies except those which the commissioner may deem to threaten the solvency or liquidity of the company.	None for pure and industrial Insureds, no more than 10% of total investment in any one member of an association.
(11) <u>ANNUAL REPORTING PROCEDURES</u>	The captive shall submit copies of its revenue account, profit and loss account, and balance sheet certified by an auditor.	Audited financial statements and disclosures.	Audited financial statements.	All captives must file a detailed annual statement.	Captives must file form prescribed by the commissioner.	Each captive insurance company shall submit to the commissioner a report of its financial condition annually. <u>Association captives must file NAIC Blank to the commissioner.</u> The commissioner determines the annual reporting form.	Each captive insurance company shall submit to the commissioner a report of its financial condition annually.
(2) <u>MANDATORY MEMBERSHIPS</u>	None Required	None Required	None Required	None Required	None Required	None Required	None Required
(3) <u>SPECIAL NOTES</u>	Tax treaty exists with the U.S.	Oldest "offshore" captive domicile.	Liberal captive regulation.	*First domestic captive domicile.	Neutral to captives.	Well-respected captive regulator.	Actively seeking Risk Retention Groups.
(4) <u>APPROVAL TIME</u>	30-60 days	30-60 days	30-60 days	60-90 days	90 days	30 days	30 days

Direct

Accounting Costs higher



FRED. S. JAMES & CO., INC. 830 Morris Turnpike, Short Hills, N.J. 07078 201 564
 Telex 844188

CAPTIVE DEVELOPMENT & PLANNING DIVISION

October 14, 1987

Mr. Bruce P. Finnerty
 Vice President
 Fred. S. James & Co., Inc. of Virginia
 1600 Wilson Boulevard
 Suite 1100
 Arlington, Virginia 22209-2582

Re: American Red Cross

Dear Bruce:

As per your request, we have amended the pro-forma scenarios 1&2 of the preliminary captive/rent-a-captive analysis dated May, 1987 for the primary casualty program of the American Red Cross.

The revised program costs were taken from the information you supplied in your September 14, 1987 memorandum to Rick Wright. ~~As we discussed, we have some concern about the taxes/assessments and front charge figures. You indicated that they are flat agreed amounts developed with the AIG. It has been our experience that taxes and assessments range about 6-7% and front charges range about 7-10% of the gross written premiums on a national account. In addition, you indicated that the primary program would now be based upon a \$1.0 million per loss retention rather than the \$250,000 originally contemplated. Therefore, we have amended the capitalization level to reflect this new retention amount, and we have had the loss forecast re-evaluated at the new retention amount. The Risk Management Consulting Group has estimated the ultimate losses at the \$1.0 million loss limit to be \$8,628,945. Please refer to the attached schedule for a break-out by line of business.~~

To summarize the changes, please note the following:

1) Gross Premiums:	\$11,487,000	Losses	8,629
2) Taxes & Assessments:	\$ 271,000	Claims Handling	561
3) Basic Charge/Front Fees:	\$ 700,000	Basic	700
4) Claims Handling:	\$ 561,000	Taxes	271
		Excess	1,326
			<u>11,487</u>

- 5) Excess Insurance: \$ 1,326,000
- 6) Capitalization: \$10,000,000 ✓
(1/2 cash, 1/2 L.O.C.)
- 7) Loss Estimate: \$ 8,629,000

All other terms and conditions of the original analysis, such as the loss reporting and loss payout patterns, investment interest rates, etc., remain unchanged.

As with the original analysis, scenario 1 is the captive approach to the program, and scenario 2 is the Richmond rent-a-captive approach to the program.

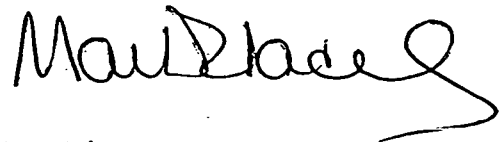
Please note the following results to the revised analysis:

(\$000)	Retained Earnings				
	1987	1988	1989	1990	1991
Captive:					
Scenario 1	195	803	1,638	2,669	3,863
Richmond:					
Scenario 2	(105)	(29)	191	527	955

As agreed, we have not amended the remaining scenarios to the original analysis.

Let us know if you have any questions.

Very truly yours,



Martin I. Nadel
Assistant Vice President

cc: B. Moll
G. L. Daniels

AMERICAN RED CROSS
Estimates of Losses at \$1,000,000 Loss Limit

Line of Coverage	Expected Ultimate Losses at \$250,000 Loss Limit	ILF From Pareto +	Industry ILF +	Selected Average*	Expected Ultimate Losses At \$1,000,000 Loss Limit
Automobile Liability	\$2,332,159	1.1069	1.1665	1.1307*	\$2,636,972
Automobile Physical Damage	733,741	1.0869	1.0000	1.0000 <	<u>733,741</u>
General Liability	1,341,113	1.1151	1.2966	1.1877	1,592,840
Workers Compensation	3,440,068	1.0655	N/A	1.0655	3,665,392
TOTAL	\$7,847,081				\$8,628,945

+Increased Limit Factor (ILF) is to convert losses from a forecast loss limit of \$250,000 per occurrence to one of \$1,000,000.

*A weighted average: 60% ILF from Pareto, 40% ILF from Industry.

14-Oct-87

AMERICAN RED CROSS

SCENARIO 1

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,934	4,573	5,436	6,299	6,989
Change in Unpaid Claims Reserve	2,675	2,416	2,330	1,898	1,294
Change in IBNR Reserve	3,020	1,640	863	431	345
Total Losses Incurred - Net of Reins. Recov.	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	151	416	636	820	969
Total Profit Attributed to Underwriting	\$151	\$416	\$636	\$820	\$969
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	21	37	49	57	63
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	106	122	134	142	148
Net Profit Attributed to Captive	\$45	\$295	\$502	\$677	\$820
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	195	608	835	1,030	1,195
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	195	608	835	1,030	1,195
Stockholder Dividends Declared					
Change in Retained Earnings	\$195	\$608	\$835	\$1,030	\$1,195
Retained Earnings:					
Beginning of Year	0	195	803	1,638	2,669
End of Year	195	803	1,638	2,669	3,863

SFC-ARC-D000633

14-Oct-87

AMERICAN RED CROSS

SCENARIO 1

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$207	\$147	\$188	\$221	\$248
Certificates of Deposit	9,019	12,837	16,185	18,955	21,298
Bonds and Other Investments	1,025	1,442	1,819	2,130	2,393
Total Cash and Other Investments	\$10,250	\$14,427	\$18,191	\$21,306	\$23,940
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	489	762	906	1,050	1,165
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	151	365	484	586	672
Total Other Assets	\$5,640	\$6,127	\$6,390	\$6,636	\$6,837
Total Assets	\$15,890	\$20,554	\$24,582	\$27,942	\$30,776
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,675	\$5,091	\$7,421	\$9,319	\$10,614
Reserve for IBNR	3,020	4,660	5,523	5,954	6,299
Total Loss Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Other Payables	0	0	0	0	0
Total Liabilities	5,695	9,751	12,944	15,273	16,913
Shareholders' Equity					
Retained Earnings	195	803	1,638	2,669	3,863
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$10,195	\$10,803	\$11,638	\$12,669	\$13,863
Total Liabilities and Shareholders' Equity	\$15,890	\$20,554	\$24,582	\$27,942	\$30,776

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14-Oct-87

AMERICAN RED CROSS

SCENARIO 1

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
Net Premiums Ceded to Captive Change in Premiums Receivable	8,629 0	8,629 0	8,629 0	8,629 0	8,629 0
Premiums Collected	8,629	8,629	8,629	8,629	8,629
Funds Retained by Ceding Company (Chg in Escr Excise Taxes Paid	489 0	273 0	144 0	144 0	115 0
Net Funds Received	8,140	8,356	8,485	8,485	8,514
Reinsurance Premiums Paid: Aggregate Stop Excess of Loss	0 0	0 0	0 0	0 0	0 0
Losses Paid	2,934	4,573	5,436	6,299	6,989
Total Payments	2,934	4,573	5,436	6,299	6,989
Net Cashflows from Underwriting	5,206	3,782	3,049	2,186	1,524
Invest Income Received	151	515	849	1,071	1,258
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	21	37	49	57	63
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	106	122	134	142	148
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,250	4,176	3,764	3,114	2,634
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,250	4,176	3,764	3,114	2,634
Application of Funds:					
Purchase of Investments	5,143	4,236	3,724	3,082	2,606
Stockholder Dividends Paid					
Total Funds Applied	5,143	4,236	3,724	3,082	2,606
Change in Cash Position	107	(60)	41	33	28
Cash: Beginning of Period	100	207	147	188	221
End of Period	207	147	188	221	248

SFC-ARC-D000635

14-Oct-87

AMERICAN RED CROSS

SCENARIO 2

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$11,487	\$11,487	\$11,487	\$11,487	\$11,487
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	271	271	271	271	271
Other Program Expenses (Front Fee)	700	700	700	700	700
Claims Handling	561	561	561	561	561
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,532	\$1,532	\$1,532	\$1,532	\$1,532
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,629	8,629	8,629	8,629	8,629

SFC-ARC-D000636

14-Oct-87

AMERICAN RED CROSS

SCENARIO 2

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,934	4,573	5,436	6,299	6,989
Change in Unpaid Claims Reserve	2,675	2,416	2,330	1,898	1,294
Change in IBNR Reserve	3,020	1,640	863	431	345
Total Losses Incurred - Net of Reins. Recov.	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	111	307	463	589	686
Total Profit Attributed to Underwriting	\$111	\$307	\$463	\$589	\$686
General Operating Expenses:					
Captive Management Fee	195	195	195	195	195
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	21	37	49	57	63
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	216	232	244	252	258
Net Profit Attributed to Captive	(\$105)	\$76	\$220	\$337	\$428
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	(105)	76	220	337	428
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	(105)	76	220	337	428
Stockholder Dividends Declared					
Change in Retained Earnings	(\$105)	\$76	\$220	\$337	\$428
Retained Earnings:					
Beginning of Year	0	(105)	(29)	191	527
End of Year	(105)	(29)	191	527	955

SFC-ARC-D000637

14-Oct-87

AMERICAN RED CROSS

SCENARIO 2

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$102	\$89	\$122	\$147	\$167
Certificates of Deposit	4,439	7,836	10,675	12,864	14,557
Bonds and Other Investments	504	880	1,199	1,445	1,636
Total Cash and Other Investments	\$5,045	\$8,806	\$11,996	\$14,456	\$16,360
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	489	762	906	1,050	1,165
Note Receivables	0	0	0	0	0
Other Receivables	56	154	232	295	343
Total Other Assets	\$545	\$916	\$1,138	\$1,344	\$1,508
Total Assets	\$5,590	\$9,722	\$13,134	\$15,801	\$17,868
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,675	\$5,091	\$7,421	\$9,319	\$10,614
Reserve for IBNR	3,020	4,660	5,523	5,954	6,299
Total Loss Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Other Payables	0	0	0	0	0
Total Liabilities	5,695	9,751	12,944	15,273	16,913
Shareholders' Equity					
Retained Earnings	(105)	(29)	191	527	955
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	(\$105)	(\$29)	\$191	\$527	\$955
Total Liabilities and Shareholders' Equity	\$5,590	\$9,722	\$13,134	\$15,801	\$17,868

SFC-ARC-D000638

14-Oct-87

AMERICAN RED CROSS

SCENARIO 2

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
Net Premiums Ceded to Captive	8,629	8,629	8,629	8,629	8,629
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,629	8,629	8,629	8,629	8,629
Funds Retained by Ceding Company (Chg in Escr	489	273	144	144	115
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,140	8,356	8,485	8,485	8,514
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,934	4,573	5,436	6,299	6,989
Total Payments	2,934	4,573	5,436	6,299	6,989
Net Cashflows from Underwriting	5,206	3,782	3,049	2,186	1,524
Invest Income Received	56	209	385	526	638
Other Expenses Paid:					
Captive Management Fee	195	195	195	195	195
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	21	37	49	57	63
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	216	232	244	252	258
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,045	3,760	3,191	2,460	1,904
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,045	3,760	3,191	2,460	1,904
Application of Funds:					
Purchase of Investments	4,944	3,773	3,158	2,435	1,884
Stockholder Dividends Paid					
Total Funds Applied	4,944	3,773	3,158	2,435	1,884
Change in Cash Position	102	(12)	33	25	20
Cash: Beginning of Period	0	102	89	122	147
End of Period	102	89	122	147	167

SFC-ARC-D000639

bcc: Gen. Records

bcc: RMD *Refle*
~~/Broker - Fred. S. James, VA~~ *CAPTIVE DEVELOP-
MENT*

o Chron.

o Cir. Reading

September 17, 1987

Dear Bruce:

I have received your letter dated September 9, 1987 and have reviewed your notes on the meeting of August 27 with Rick Wright in New York. I am in agreement with all items listed in your letter and, in fact, have already received and reviewed the Mitsubishi study mentioned in item 4.

However, I would like to propose a more explicit strategy for further evaluation of the captive alternative. Obviously, one of the first things that must be produced is an update of the financial analysis (done by James back in May of 1987) using current program cost factors. The results of this analysis will play the key part in any recommendation made to Red Cross management. Therefore, the financial analysis should be completed as soon as practicable so that we can review all of the financial implications and discuss the format and content of the formal consulting report that James will ultimately prepare.

If we can presume, for the moment, that the financial analysis supports a recommendation in favor of a captive, then I would expect the James report to contain all of the following items:

- I. A summary of the reasons why a captive is a feasible alternative. This section should reference all of the advantages - financial and other - associated with the captive arrangement. Many of these have already been included in the preliminary May report.
- II. An outline of the methodology that will be employed to establish the captive. A step-by-step explanation, complete with anticipated dates, and descriptions of each step in the process, would greatly facilitate understanding by the Board members and management representatives that will be reviewing the report.
- III. A recommendation regarding captive domicile. The recommendation should be supplemented by an analysis of the factors that support it. I would anticipate that such factors would include but not be limited to the overall stability of the regulatory environment, the relative ease in obtaining a charter, initial capital and surplus requirements, degree of regulation of investment activity, financial

SFC-ARC-D000640

disclosure requirements, rate and form filing requirements, regulatory limitations on premium volume (e.g., ratio restrictions), and requirements for participation in insurer insolvency funds, residual markets and FAIR plans.

The completion date for the James consulting report will be driven by the timing of our Board of Governors meetings. Our goal is to have the final recommendation made to appropriate committees of the Board at its February meeting. At the upcoming October Board meeting, I anticipate having to provide only a general status report. At that time, it will probably be recommended that an already existing ad-hoc committee monitor our progress, evaluate your consulting study and assume responsibility for making a recommendation to the rest of the Board in February.

Prior experience with the ad-hoc committee suggests that we give them a preliminary draft as soon as possible following the October session, and allow them plenty of time to digest it before we set up our first meeting. Given the fact that they are a busy group and one that is tough to get together in the same city on the same day, and in anticipation of more than one meeting being necessary during the holiday season, I would suggest that we try to complete at least a preliminary draft of the full consulting report by October 26. That would allow us time to review and comment before distributing a draft to the committee members. Also, this date would allow sufficient lead time if it becomes necessary to involve Tillinghast in a review capacity.

Bruce, I realize that these time frames may present some difficulty for your consulting group and suggest that we discuss this at your earliest convenience.

Sincerely,

Gregory L. Daniels
Director
Risk Management Division

Mr. Bruce Finnerty
Vice President
Fred. S. James & Company
of Virginia
Suite 1100
1600 Wilson Boulevard
Arlington, Virginia 22209
bcc: Mr. Boyle

JAMES

FRED.S.JAMES&CO.,INC.OF VIRGINIA 1600 Wilson Blvd., Suite 1100, Arlington, Virginia 22209-2582 (703) 528-0100 Telex 899-473

September 9, 1987

Mr. Gregory L. Daniels, Director
Risk Management Division
American Red Cross
615 North St. Asaph Street
Alexandria, VA 22314

Re: Meeting of August 27, 1987
with Rick Wright

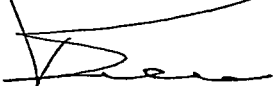
Dear Greg,

My notes of the captioned meeting reflect the following issues to be concluded:

- 1) I was to send Rick the current AIG numbers for the '87 program (accomplished).
- 2) Rick suggested that we have a meeting with Frank Newhouser at AIG in New York.
- 3) Mr. Jim Tiernery of our Short Hills office was to contact me regarding advises on a funded D&O approach. (Mr. Tiernery has called me and we have missed each other all last week.)
- 4) Rick Wright was to forward a study which was done for Mitsubishi for our private use relative to a possible format for the October 15 board meeting. (I have received a copy - presume you have as well.)

As I can recall, these are the items that were discussed. If you have a different agenda, may I please hear from you.

Very truly yours,


Bruce Finnerty
Vice President

SFC-ARC-D000642

bcc: Gen. Records

bcc: RMD

Insurance Coverage

o Captive Insurance Companies

o Chron.

o Cir. Reading

See Distribution

April 21, 1988

Greg Daniels

Captive Insurance
Facility

The first meeting of the captive insurance company task force has been scheduled for Friday, April 29 at 9:30 a.m. The meeting will be held in Steve Richards' office.

Attached for your review is a set of proforma financial statements using up to date cost factors and an outline of the steps involved in the formation process. Many of these steps can be accomplished in a routine manner once the service companies are selected. Also enclosed is a sample set of By-Laws provided for your review.

I have conducted initial interviews with management companies, auditors and law firms in Bermuda. The results of my discussions and meetings are outlined below:

Management Companies

The list of management companies interviewed is as follows:

American International Company Ltd.
Bermuda Fire & Marine Management Limited
Continental Risk Services Ltd.
Independent Management Group Ltd.
Insurance Brokerage & Management Co., Ltd.
James (Bermuda) Ltd.
Johnson & Higgins (Bermuda) Ltd.
Skandia International Risk Management Ltd.

On the basis of initial interviews with representatives from each company, a short list of qualifiers was developed using the following criteria for evaluation:

- o Services
 - Overall quality of presentation
 - Financial reporting capabilities
 - Ability to handle certificates of insurance
 - Ability to provide access to reinsurance market
 - Level of oversight by senior management
- o Fee Structure
- o Client Mix
- o Relationships with government representatives
- o Flexibility

SFC-ARC-D000643

Although all of those interviewed demonstrated an ability to handle the Red Cross captive, those scoring highest in the service area were Johnson & Higgins (Bermuda) Ltd., Skandia International Risk Management Ltd. and James (Bermuda) Ltd. In order of preference, Johnson and Higgins should be considered third. Although their quality of service to existing clients appears to be very high, they expressed a reluctance to provide anything more than limited guidance on reinsurance placement without charging separate fees. The level of their independence and their fee structure also cause some concern. I suspect that a higher priority and greater leverage would be afforded to those clients who maintain a brokerage relationship with Johnson and Higgins in the United States. In addition, the fee quotations were some \$10,000 to \$20,000 higher than either Skandia or James.

Both James and Skandia offered to assist in reinsurance placement within their existing fee structure. Both seemed very comfortable with the captive's preliminary business plan, level of capitalization and the time frame for the formation process. Their fee quotations were identical. However, James seemed to offer both the greatest degree of flexibility and the greatest level of oversight by senior management.

During the course of the meeting, Mr. Warren Sproule, President and Managing Director of James (Bermuda) Ltd. suggested methods of capitalization that would serve to reduce, or eliminate altogether, the fees associated with letters of credit. He also suggested ways to build flexibility into the structure of the captive's board and was the most flexible with regard to issuance of certificates and insurance policies.

In addition, the Red Cross has better leverage with James due to our brokerage relationship with the company's parent. James was also the most receptive of all companies interviewed to our use of Deloitte Haskins & Sells as auditors for the captive.

Auditors

Both Deloitte Haskins & Sells and Authur Andersen & Co. were interviewed. Their fees were relatively the same. Information picked up during interviews with the captive management companies indicated a definite preference for utilization of the same auditing firm utilized by the captive's parent company.

Law Firms & Banks

SFC-ARC-D000644

There are two law firms in Bermuda who are typically used to fulfill the legal obligations of the captive insurance industry. They are: Conyers, Dill & Pearman and Appleby, Spurling & Kempe. Both firms are held in high regard and are well positioned to execute the incorporation and registration process. Conyers, Dill & Pearman, however, has the best relationship with our domestic broker (Fred. S. James) and are very accommodating toward the American Red Cross.

For example, Miss May Coye, one of the Conyers Dill & Pearman representatives with whom I met, has, at different times, been actively involved with the British Red Cross. She demonstrated a keen interest in all aspects of the American Red Cross, especially blood services, and offered to substantially discount the directors fees typically charged by the firm. She also made a special effort to meet with us in Washington during the Risk & Insurance Management Society (RIMS) convention this week.

With regard to the banking system, the situation is quite similar. One of two major banks is typically used to maintain operating accounts for captive insurance companies in Bermuda - The Bank of N.T. Butterfield & Son Ltd. and the Bank of Bermuda Ltd. By consensus, the preference expressed by the captive management companies was for the Bank of Bermuda Ltd. Generally speaking, their banking services are noted for a higher degree of sophistication and a higher level of responsiveness.

For the reasons outlined above, my recommendations for service providers are:

<u>Captive Management Company</u>	-	James (Bermuda) Ltd.
<u>Auditors</u>	-	Deloitte, Haskins & Sells
<u>Law Firm</u>	-	Conyers, Dill & Pearman
<u>Bank</u>	-	The Bank of Bermuda, Ltd.

At our meeting on Friday, April 29, I will seek your approval of these recommendations. We will also discuss the investment management procedures and the outlined procedures for incorporation.



Gregory L. Daniels
Director
Risk Management Division

DISTRIBUTION:

Mr. Boyle
Mr. Richards
Mr. Rose
Mr. Campbell

American Red Cross
Steps to the Formation of a
Captive Insurance Company

1. Selection of the following Bermuda service companies:
 - (a) Management Company
 - (b) Law Firm
 - (c) Bank
 - (d) Auditor
 2. Choice of captive name (along with two alternatives) provided to management company and law firm. The law firm then checks the name with the Registrar of Companies.
 3. Advertisement of the law firm of our intention to incorporate as an "exempted company" (i.e., not permitted to underwrite local-Bermudian exposures and therefore, exempt from certain Bermudian ownership requirements) in the Royal Gazette, a local daily newspaper.
 4. Completion by Director, Risk Management Division, of the following forms:
 - (a) Pre-Incorporation Information Form
 - (b) Business Plan
 - (c) Lawyers Information Form on which, among other items, are listed the directors, president and vice presidents of the proposed captive company.
(Under the Bermudian law, two directors must be Bermuda residents and they constitute a quorum. The company secretary is normally provided by the law firm.)
- The submission of these forms should be accompanied by a check in the amount of \$29,550 payable to the law firm to cover disbursements for incorporation and registration expenses.
5. Preparation and submission by law firm of the formal application for incorporation and a Memorandum of Association to the Registrar of Companies.
 6. Review and approval of captive ownership by the Bermuda Monetary Authority. Review and approval by Insurance Admissions Committee of insurance program and business plan.
 7. Formal incorporation of the company by law firm.
 8. Filing by the law firm of the final Memorandum of Association with the Registrar of Companies along with payment of the stamp tax on capital. The Registrar then issues the Certificate of Incorporation.

SFC-ARC-D000646

9. Preparation by the law firm of the following documents for the Activation Meetings:
 - (a) Agenda
 - (b) Proxy Form
 - (c) By-Laws
 - (d) Share Subscriptions
 - (e) Waiver of Notice
 - (f) Bank Resolution
10. Preparation by management company of the management agreement.
11. Organization and preparation of Activation Meetings by law firm and management company.
12. Payment of capital by American Red Cross and submission by law firm of the Insurance Application (Form 1B) to the Registrar of Companies.
13. Issuance of Registration Certificate by the Minister of Finance.
14. Commencement of captive operations.

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIOS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

	(000)				
	1988	1989	1990	1991	1992
Total Premiums	\$19,433	\$18,335	\$19,295	\$20,317	\$21,405
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	601	638	678	720	766
Other Program Expenses (Front Fee)	540	575	612	652	694
Claims Handling	599	638	679	723	770
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,740	\$1,851	\$1,969	\$2,095	\$2,230
Excess Reinsurance Premiums	1,730	1,842	1,962	2,089	2,224
Net Premiums Available to Pay Losses	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	15,963	14,642	15,364	16,133	16,951

SFC-ARC-D000648

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
FRONTED CAPTIVE PROGRAM FOR
A.L., A.Phy.O., W.C., PROPERTY AND D&O
GENERAL LIABILITY DIRECT FROM CAPTIVE
AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

INCOME STATEMENT

(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$15,963	\$14,642	\$15,364	\$16,133	\$16,951
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	4,187	6,507	8,004	9,627	11,146
Change in Unpaid Claims Reserve	3,133	3,282	3,502	3,206	2,634
Change in IBNR Reserve	4,643	2,852	1,858	1,300	1,171
Total Losses Incurred - Net of Reins. Recov.	\$11,963	\$12,641	\$13,364	\$14,133	\$14,952
Pure Underwriting Gain	\$4,000	\$2,000	\$2,000	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	354	972	1,503	2,017	2,514
Total Profit Attributed to Underwriting	\$4,354	\$2,972	\$3,504	\$4,018	\$4,514
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	29	52	72	89	103
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	114	137	157	174	188
Net Profit Attributed to Captive	\$4,240	\$2,835	\$3,346	\$3,844	\$4,325
Investment Profits Allocated to Initial Capital	\$163	\$341	\$364	\$388	\$413
Net Profit before Federal Income Taxes	4,402	3,176	3,710	4,231	4,738
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	4,402	3,176	3,710	4,231	4,738
Stockholder Dividends Declared					
Change in Retained Earnings	\$4,402	\$3,176	\$3,710	\$4,231	\$4,738
Retained Earnings:					
Beginning of Year	0	4,402	7,578	11,288	15,519
End of Year	4,402	7,578	11,288	15,519	20,257

SFC-ARC-D000649

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

BALANCE SHEET

(000)

	1988	1989	1990	1991	1992
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$328	\$254	\$345	\$432	\$516
Certificates of Deposit	14,272	22,019	29,617	36,909	44,051
Bonds and Other Investments	1,622	2,474	3,328	4,147	4,950
Total Cash and Other Investments	\$16,222	\$24,747	\$33,290	\$41,488	\$49,517
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	698	1,085	1,334	1,604	1,858
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	258	656	933	1,203	1,463
Total Other Assets	\$5,956	\$6,741	\$7,267	\$7,807	\$8,321
Total Assets	\$22,178	\$31,488	\$40,558	\$49,295	\$57,838
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$3,133	\$6,415	\$9,917	\$13,123	\$15,756
Reserve for IBNR	4,643	7,495	9,353	10,653	11,825
Total Loss Reserves	\$7,776	\$13,910	\$19,270	\$23,776	\$27,581
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$7,776	\$13,910	\$19,270	\$23,776	\$27,581
Other Payables	0	0	0	0	0
Total Liabilities	7,776	13,910	19,270	23,776	27,581
Shareholders' Equity					
Retained Earnings	4,402	7,578	11,288	15,519	20,257
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
Total Equity	\$14,402	\$17,578	\$21,288	\$25,519	\$30,257
Total Liabilities and Shareholders' Equity	\$22,178	\$31,488	\$40,558	\$49,295	\$57,838

SFC-ARC-D000650

SCENARIO 1

21-Apr-88

AMERICAN RED CROSS
 FRONTED CAPTIVE PROGRAM FOR
 A.L., A.Ph.D., W.C., PROPERTY AND D&O
 GENERAL LIABILITY DIRECT FROM CAPTIVE
 AIDS/POLLUTION COVERAGE PROVIDED BY CAPTIVE

CASH FLOW STATEMENT

	(000)				
	1988	1989	1990	1991	1992
Net Premiums Ceded to Captive	15,963	14,642	15,364	16,133	16,951
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	15,963	14,642	15,364	16,133	16,951
Funds Retained by Ceding Company (Chg in Eschr	698	387	249	270	253
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	15,265	14,255	15,114	15,862	16,698
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	4,187	6,507	8,004	9,627	11,146
Total Payments	4,187	6,507	8,004	9,627	11,146
Net Cashflows from Underwriting	11,078	7,748	7,111	6,236	5,552
Invest Income Received	258	915	1,590	2,136	2,666
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	29	52	72	89	103
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	114	137	157	174	188
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	11,222	8,525	8,543	8,198	8,029
Capital Paid In	0	0	0	0	0
Total Funds Provided	11,222	8,525	8,543	8,198	8,029
Application of Funds:					
Purchase of Investments	10,994	8,600	8,451	8,111	7,945
Stockholder Dividends Paid					
Total Funds Applied	10,994	8,600	8,451	8,111	7,945
Change in Cash Position	228	(75)	92	86	84
Cash: Beginning of Period	100	328	254	345	432
End of Period	328	254	345	432	516

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B Y E - L A W S

of

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INTERPRETATION

1. In these Bye-Laws the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

- (1) "the Act" means "The Companies Act 1981" as amended from time to time;
- (2) "Auditor" includes any individual or partnership;
- (3) "the Company" means the Company for which these Bye-Laws are approved and confirmed;
- (4) "Member" means the person registered in the Register of Members as the holder of shares in the Company and, when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such joint holders or all of such persons as the context so requires;
- (5) "notice" means written notice unless otherwise specifically stated and as further defined in these Bye-Laws;
- (6) "Secretary" means the person appointed to perform the duties of Secretary of the Company and includes any Assistant or Acting Secretary.

2. In these Bye-Laws, unless there be something in the subject or context inconsistent with such construction:-

- (1) words importing the plural number shall be deemed to include the singular number and words importing the singular number shall be deemed to include the plural number;
- (2) words importing the masculine gender also include the feminine gender;
- (3) words importing persons include companies or associations or bodies of persons whether corporate or not;

- (4) the words:
 - (a) "may" shall be construed as permissive;
 - (b) "shall" shall be construed as imperative;
- (5) words or expressions contained in these Bye-Laws shall bear the same meaning as in the Act;
- (6) the word "Director" for the purposes of these Bye-Laws, should be read as including any Alternate Director.

3. Expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words in a visible form.

DIRECTORS

4. (1) The business of the Company shall be managed and conducted by a Board of Directors consisting of not less than two or such number in excess thereof as the Members may from time to time determine who shall be elected or appointed in the first place at the Statutory Meeting and thereafter at the Annual General Meeting and who shall hold office until the next Annual General Meeting or until their successors are elected or appointed, and any General Meeting may authorise the Board of Directors to fill any vacancy in their number left unfilled at a General Meeting.

(2) The Directors shall have the power from time to time and at any time to appoint any qualified person to fill a vacancy on the Board of Directors occurring as the result of the death, disability, disqualification or resignation of any Director.

(3) Any General Meeting of the Company may elect a qualified person or persons to act as Directors in the alternative to the Directors of the Company or may authorise the Board of Direc-

tors to appoint such Alternate Directors; any person so appointed shall have all the rights and powers of the Director for whom he is appointed in the alternative.

An Alternate Director shall, subject to his giving the Company an address at which notices may be served upon him, be entitled to receive notices of all Meetings of the Board of Directors and to attend and vote as a Director at any such Meeting at which the Director for whom he was appointed is not personally present and generally to perform at such Meeting all the functions of the Director for whom he was appointed in the absence of that Director.

An Alternate Director shall immediately cease to be such if the Director for whom he was appointed ceases for any reason to be a Director but may be re-appointed by the Board of Directors as alternate to the person appointed to fill the vacancy in accordance with subparagraph (2). An Alternate Director may be removed at any time by the body which appointed him. The removal of an Alternate Director shall be effected by notice left with the Secretary and given to the Alternate Director concerned.

(4) Subject to any provision to the contrary in these Bye-Laws the Members may, at any Special General Meeting convened and held in accordance with these Bye-Laws, remove a Director at any time provided that the notice of any such Meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director 14 days before the Meeting and at such Meeting such Director shall be entitled to be heard on the motion for his removal.

(5) A vacancy on the Board of Directors created by the removal of a Director under the provisions of subparagraph (4) may be filled by the election or appointment of the Members at the Meet-

ing at which such Director is removed to hold office until the next Annual General Meeting or until their successors are elected or appointed or, in the absence of such election or appointment such Meeting may authorise the Board of Directors to fill any vacancy in their number left unfilled.

(6) The Directors may act notwithstanding any vacancy in their number but, if and so long as their number is reduced below the number fixed by or pursuant to Bye-Law 8 as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of (i) summoning a general meeting of the Company or (ii) preserving the assets of the Company.

(7) The office of Director shall be vacated if the Director:-

- (a) is removed from office pursuant to these Bye-Laws or is prohibited from being a Director under any provision of law;
- (b) becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (c) becomes of unsound mind or dies;
- (d) resigns his office by notice in writing to the Company.

5. Each Director shall have registered in his own name at least one share of the voting capital stock of the Company.

6. The Directors may meet for the transaction of business, adjourn and otherwise regulate their Meetings as they see fit.

7. A Meeting of the Directors may be convened by the Secretary or by any two Directors. The Secretary shall convene a Meeting of the Directors of which notice may be given by telephone or otherwise whenever he shall be required so to do by the President, Vice Presi-

dent or any two Directors. Any Director may waive notice of any meeting.

8. (1) The quorum necessary for the transaction of business at a Meeting of the Directors may be fixed by the Directors and, unless so fixed, shall be two.

(2) Directors may participate in any Meeting of the Board by means of conference telephone or other communications equipment through which all persons participating in the Meeting can communicate with each other and such participation shall constitute presence at a Meeting as if those participating were present in person.

(3) A resolution put to the vote at a Meeting of the Directors shall be carried by the affirmative votes of a majority of the votes cast and in the case of an equality of votes the resolution shall fail.

9. A resolution in writing signed by all the Directors shall be as valid and effectual as if it had been passed at a Meeting of the Directors duly called and constituted.

10. (1) Any individual who is a Director or his firm partner or a company with whom he is associated may act in a professional capacity for the Company and he or his firm, partner or such company shall be entitled to remuneration for professional services as if he were not a Director, provided that nothing herein contained shall authorise a Director or the firm, partner or such company of such Director to act as auditor of the Company.

(2) The remuneration of the Directors shall be determined by the Company in General Meeting and shall be deemed to accrue from day to day. The Directors may also be paid all travell-

ing, hotel and other expenses properly incurred by them in attending and returning from Meetings of the Directors or any committee of the Directors or General Meetings of the Company or in connection with the business of the Company.

(3) A Director who is in any way, interested in a contract or proposed contract with the Company shall declare the nature of his interest as required by the Act.

(4) Unless disqualified by the Chairman of the relevant meeting, a Director may vote in respect of any contract or arrangement in which he is interested and may be counted in the quorum.

11. All acts done bona fide by any Meeting of the Directors or by a Committee of Directors or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

GENERAL POWERS OF DIRECTORS

12. (1) In managing the business of the Company the Directors may pay all expenses incurred in promoting and incorporating the Company and may exercise all such powers of the Company as are not, by statute or by these Bye-Laws, required to be exercised by the Company in General Meeting; subject, nevertheless, to any of these Bye-Laws, to the provisions of any statute and to such regulations, being not inconsistent with the aforesaid Bye-Laws or provisions and as may be prescribed by the Company in General Meeting; but no regulation made by the Company in General Meeting shall

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invalidate any prior act of the Directors which would have been valid if that regulation had not been made.

(2) Any person contracting or dealing with the Company in the ordinary course of business shall be entitled to rely on any written or oral contract or agreement or deed, document or instrument entered into or executed as the case may be by any two of the Directors acting jointly on behalf of the Company and the same shall be deemed to be validly entered into or executed by the Company as the case may be and shall, subject to any rule of law be binding on the Company.

(3) The Directors may from time to time appoint one or more of their body to the office of managing director or chief executive officer of the Company who, subject to the control of the Board of Directors, shall in general supervise and administer all of the business and affairs of the Company. The Directors may entrust to and confer upon such managing director or chief executive officer any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit and either collaterally with or to the exclusion of their own powers and may from time to time revoke, withdraw, alter or vary all or any of such powers.

(4) The Directors may appoint some person or persons to act as manager of the Company's day to day business and may entrust to and confer upon such manager such powers and duties as they deem appropriate for the transaction or conduct of such business and the Directors shall not be responsible for the negligence or default of any such person if employed in good faith.

(5) The Directors may from time to time and at any time authorise any Director or Officer to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement document or instrument on behalf of the Company.

(6) The Directors may from time to time and at any time by power of attorney appoint any company, firm, or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors) and for such period and subject to such conditions as they may think fit; and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or instrument under their personal seal with the same effect as the affixation of the Company Seal.

13. (1) The Directors may delegate any of their powers to a committee consisting of two or more of the Directors together with such other persons as the Board of Directors may appoint, but every such committee shall conform to such directions as the Directors shall impose on them.

(2) The Directors may appoint, suspend or remove any manager, secretary, clerk, agent or employee of the Company and may fix their remuneration and determine their duties.

14. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party.

OFFICERS

15. (1) The Officers of the Company shall consist of a President, Vice President, Secretary and such additional Officers as the Directors may from time to time determine all of whom shall be deemed to be Officers for the purposes of the Act and these Bye-Laws.

(2) The Directors of the Company shall, as soon as may be after the Statutory Meeting of Members and after each General Meeting at which the Directors are elected, elect one of their number to be President of the Company and another of their number to be Vice President; and if more than one Director is proposed for either of these offices, the election to such office shall take place in such manner as the Directors may determine.

(3) The Officers shall receive such remuneration as the Directors may from time to time determine.

16. The Secretary and additional Officers, if any, shall be appointed by the Directors and shall hold office during the pleasure of the Directors.

17. The Chairman, if there be one, and if not the President shall act as chairman at all Meetings of the Members and of the Directors at which he is present. In their absence the Vice President, if present, shall be chairman and in the absence of all of them a chairman shall be appointed or elected by those present at the Meeting.

18. The Secretary shall attend all Meetings of the Members and of the Directors and shall keep correct minutes of such Meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Act or these Bye-Laws or as may be prescribed by the Directors.

19. The Officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time.

MINUTES

20. The Directors shall cause Minutes to be duly entered in books provided for the purpose:

- (a) of all elections and appointments of Officers;
- (b) of the names of the Directors present at each Meeting of the Directors and of any Committee of the Directors;
- (c) of all resolutions and proceedings of each General Meeting of the Members, Meetings of the Directors and Meetings of Committees of the Directors.

MEETINGS

21. The Annual General Meeting of the Company shall be held in each year other than the year of incorporation at such time and place as the President or Vice President or, them failing, the Directors shall appoint. At least five days' notice of such Meeting shall be given stating the date, place and time at which the Meeting is to be held, that the election of Directors will take place thereat, and as far as practicable, the other objects of the Meeting.

22. The Directors may convene a Special General Meeting of the Company whenever in their judgment such a Meeting is necessary, upon not less than five days notice which shall state the time, place and the general nature of the business to be considered at the Meeting.

23. The accidental omission to give notice of a Meeting to, or the non-receipt of notice of a Meeting by, any person entitled to receive notice shall not invalidate the proceedings at that Meeting.

24. Members holding not less than one-tenth part in value of the shares of the Company shall at all times have the right, by written requisition to the President, Vice President or Secretary of the Company, to require a Special General Meeting to be called by the Directors for the transaction of any business specified in such requisition; and such Meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such Meeting the requisitionists themselves may do so in accordance with the provisions of Section 74 (3) of the Act.

25. (1) A Meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in these Bye-Laws, be deemed to have been properly called if it is so agreed by (i) all the Members entitled to attend and vote thereat in the case of an Annual General Meeting; and (ii) by a majority in number of the Members having a right to attend and vote at the Meeting, being a majority together holding not less than 95% in nominal value of the shares giving a right to attend and vote thereat in the case of a Special General Meeting.

(2) Any Member, in person or by duly authorised attorney, may waive notice of any Meeting.

(3) The Directors may postpone any General Meeting called in accordance with the provisions of Bye-Laws 21 or 22 provided that notice of postponement is given to each Member not less than 48 hours before the time for such Meeting; and provided further that fresh notice of the date, time and place for the post-

poned Meeting shall be given to each Member in accordance with the provisions of these Bye-Laws.

26. (1) At any General Meeting of the Company two Members present in person and representing in person or by proxy in excess of 50% of the outstanding voting shares of the capital stock of the Company throughout the Meeting shall form a quorum for the transaction of business; if within half an hour from the time appointed for the Meeting a quorum is not present, the Meeting shall stand adjourned to the same day two weeks later, at the same time and place or to such other day, time or place as the President, Vice President or any Director attending at the appointed time may determine.

(2) The chairman may, with the consent of any Meeting at which a quorum is present (and shall if so directed by the Meeting), adjourn the Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting other than the business left unfinished at the Meeting from which the adjournment took place unless notice of such new business and of the adjourned Meeting has been given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of the adjourned Meeting or of the business to be transacted at the adjourned Meeting, save and except for a Meeting adjourned sine die, in which case notice of the adjourned Meeting shall be given as in the case of an original Meeting.

27. A resolution in writing signed by all of the Members, which may be in counterparts, shall be as valid and as effectual as if it had been passed by a General Meeting duly called and constituted.

28. (1) Subject to the provisions of the Act at any General Meeting of the Company any question proposed for the consideration

of the Members shall be decided on a simple majority of the votes cast in accordance with the provisions of these Bye-Laws.

(2) No Member shall be entitled to vote at any General Meeting unless he has paid all the calls on all shares held by him.

(3) At any General Meeting a resolution put to the vote of the Meeting shall in the first instance be voted upon by a show of hands and, subject to any rights or restrictions for the time being lawfully attached to any class of shares and subject to the provisions of subparagraph (5), every Member present in person at such Meeting shall be entitled to one vote and shall cast such vote by raising his hand.

(4) At any General Meeting of the Company a declaration by the Chairman that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, an entry to that effect in a book containing the Minutes of the proceedings of the Company shall, subject to the provisions of subparagraph (5), be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such question.

(5) Notwithstanding the provisions of subparagraphs (3) and (4), at any General Meeting of the Company it shall be lawful, in respect of any question proposed for the consideration of the Members (whether before or on the declaration of the result of a show of hands as provided for in subparagraph (3)), for a poll to be demanded by any of the following persons:

- (a) the chairman of such Meeting; or
- (b) at least three Members present in person or represented by proxy; or

(c) any Member or Members present in person or represented by proxy and holding between them not less than one-tenth of the total voting rights of all the Members having the right to vote at such Meeting; or

(d) a Member or Members present in person or represented by a proxy holding shares in the Company conferring the right to vote at such Meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all such shares conferring such right.

(6) Where, in accordance with the provisions of subparagraph (5), a poll is demanded, subject to any rights or restrictions for the time being lawfully attached to any class of shares, every Member present in person at such Meeting shall have one vote for each share of which he is the holder and for which he holds a proxy and such vote shall be counted in such manner as the chairman may direct and the result of such poll shall be deemed to be the resolution of the Meeting at which the poll was demanded and shall replace any previous resolution upon the same matter which has been the subject of a show of hands.

(7) A poll demanded in accordance with the provisions of subparagraph (5), for the purpose of electing a chairman or on a question of adjournment, shall be taken forthwith and a poll demanded on any other question shall be taken in such manner and at such time and place as the chairman may direct and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.

(8) In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the Meeting at which such show of hands takes place, or at which such poll is demanded, shall be entitled to a second or casting vote.

29. Where a vote is taken by poll each Member entitled to vote shall be furnished with a ballot paper on which he shall record his vote in such manner as shall be determined at the Meeting having regard to the nature of the question on which the vote is taken; and each ballot paper shall be signed or initialled or otherwise marked so as to identify the voter. At the conclusion of the poll the ballot papers shall be examined by a committee of not less than two Members appointed for the purpose and the result of the poll shall be declared by the chairman.

30. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

31. (1) The instrument appointing a proxy shall be in writing in the form or as near thereto as circumstances admit of Form "D" in the Schedule hereto under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal, or under the hand of a duly authorised officer or attorney. A proxy must be a Member of the Company. The decision of the chairman of any General Meeting as to the validity of any instrument of proxy shall be final.

(2) A corporation which is a Member of the Company may by resolution of its Directors authorise such person as it thinks fit to act as its representative at any Meeting of the Members of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company.

SHARE CAPITAL AND SHARES

32. (1) Subject to any resolution of the Members to the contrary and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, the Directors shall have power to issue any unissued shares of the Company on such terms and conditions as they may determine and any shares or class of shares may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by resolution of the Members prescribe.

(2) Subject to the provisions of Sections 42 and 43 of the Act any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by resolution of the Members determine.

(3) If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate General Meeting of the holders of the shares of the class in accordance with Section 47 (7) of the Act. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(4) The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not be bound to recognise any equitable or other claim to, or interest in, such share on the part of any other person.

(5) The Company shall not give, whether directly or indirectly, whether by means of loan, guarantee, provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the Company; but nothing in this Bye-Law shall prohibit transactions mentioned in the proviso to Section 39 (1) or in Section 39 (2) of the Act.

(6) The Company may from time to time by resolution of the Members increase, alter or reduce its capital in accordance with the provisions of Sections 45 and 46 of the Act.

33. (1) Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or draft sent through the post directed to the holder at his address in the Register of Members or, in the case of joint holders, to such address of the holder first named in the Register of Members, or to such person and to such address as the holder or joint holders may in writing direct. If two or more persons are registered as joint holders of any shares any one can give an effectual receipt for any dividend payable in respect of such shares.

(2) Where two or more persons are registered as joint holders of a share or shares then in the event of the death of any joint holder or holders the remaining joint holder or holders shall be absolutely entitled to the said shares and the Company shall recognise no claim in respect of the estate of any joint holder except in the case of the last survivor of such joint holders.

34. (1) Unless otherwise determined by the Board of Directors the shares of the Company shall not have distinguishing numbers.

(2) Every Member shall be entitled to a certificate under the Seal of the Company (or a facsimile thereof) specifying the shares held by him and whether the same are fully paid up and, if not, how much has been paid thereon. If any such certificate shall be proved to the satisfaction of the Directors to have been worn out, lost, mislaid or destroyed the Directors may cause a new certificate to be issued and request an indemnity for the lost certificate if they see fit.

CALLS ON SHARES

35. The Directors may from time to time make such calls as they think fit upon the Members in respect of all moneys unpaid on the shares allotted to or held by them and, if a call is not paid on or before the day appointed for payment thereof, the Member may at the discretion of the Board of Directors be liable to pay the Company interest on the amount of such call at such rate of interest as the Directors may determine, from the date when such call was payable up to the actual date of payment. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

36. The Directors may, on the issue of shares, differentiate between the holders as to the amount of calls to be paid and the times of payment of such calls.

REGISTER OF MEMBERS

37. The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:

- (a) the name and address of each Member, the number of shares held by him and the amount paid or agreed to be considered as paid on such shares;
- (b) the date on which each person was entered in the Register of Members; and
- (c) the date on which any person ceased to be a Member.

38. The Register of Members shall be open to inspection at the office of the Company between 10 a.m. and 12 noon on every business day. The Register of Members may, after notice has been given by advertisement in an appointed newspaper to that effect, be closed for any time or times not exceeding in the whole 30 days in each year.

39. Notwithstanding any other provision of these Bye-Laws the Directors may fix any date as the record date for:-

- (a) determining the Members entitled to receive any dividend and such record date may be on, or not more than 30 days before or after, any date on which such dividend is declared;
- (b) determining the Members entitled to receive notice of and to vote at any General Meeting of the Company.

TRANSFER OF SHARES

40. The instrument of transfer shall be in the form or as near thereto as circumstances admit of Form "A" in the Schedule hereto. The Transferor shall be deemed to remain the holder of such share until the same has been transferred to the transferee in the Register of Members.

41. (1) The Directors may in their absolute discretion and without assigning any reason refuse to register the transfer of a share.

(2) If the Directors refuse to register a transfer of any share the Company shall, within three months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

42. The Directors may refuse to recognise any instrument of transfer unless it is accompanied by the certificate of the shares to which it relates and by such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

43. The joint holders of any share or shares may transfer such share or shares or any one or more of them to one or more of such joint holders; and the surviving holder or holders of any share or shares previously held by them jointly with a deceased Member may transfer any such share to the executors or administrators of such deceased Member.

TRANSMISSION OF SHARES

44. In the case of the death of a Member the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons. Subject to the provisions of Section 52 of the Act, for the purpose of this Bye-Law, legal personal representative means the executor or administrator of a deceased Member or such other person as the Directors may in their absolute discretion decide as being properly authorised to deal with a share of a deceased Member.

45. Any person becoming entitled to a share in consequence of the death or bankruptcy of any Member may be registered as a Member upon such evidence as the Directors may deem sufficient or may, instead of being registered himself, elect to have some person named by him registered as a transferee of such share, and in such case the person becoming entitled shall execute to his nominee an instrument of transfer in the form or as near thereto as circumstances admit of Form "B" in the Schedule hereto; and on the presentation thereof to the Directors, accompanied by such evidence as they may require to prove the title of the transferor, the transferee shall be registered as a Member but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy, as the case may be.

FORFEITURE OF SHARES

46. If any Member fails to pay on the day appointed for payment thereof any call in respect of any share allotted to or held by him the Directors may, at any time thereafter during such time as the call remains unpaid, direct the Secretary to forward to such Member a notice similar to the Form "C" in the Schedule hereto and, if the requirements of such notice are not complied with, any such share may at any time thereafter before the payment of such call and the interest due in respect thereof (at a rate determined by the Directors) be forfeited by a resolution of the Directors to that effect, and such share shall thereupon become the property of the Company and be disposed of as the Directors shall determine.

47. A Member whose share or shares have been forfeited as aforesaid shall, notwithstanding such forfeiture, be liable to pay to the Company all calls owing on such share or shares at the time of the forfeiture and all interest due thereon.

DIVIDENDS

48. (1) The Directors may declare a dividend to be paid to the Members, in proportion to the number of shares held by them, out of the profits available for the purpose and such dividend may be paid in cash or wholly or partly in specie in which case the Directors may fix the value for distribution in specie of any assets.

(2) The Company in General Meeting may declare or may authorise the Directors to make such other distributions (in cash or in specie) to the Members as may be lawfully made but no such distributions shall exceed the amount recommended by the Directors.

49. The Directors may from time to time before declaring a dividend set aside out of the surplus or profits of the Company such sum as they think proper as a reserve fund to be used to meet contingencies or for equalising dividends or for any other special purpose.

50. The Directors may deduct from the dividends or distributions payable to any Member all money due by him to the Company on account of calls or otherwise.

CAPITALISATION

51. The Company in General Meeting may, on the recommendation of the Directors, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares, to be allotted as fully paid bonus shares pro rata to the Members of the Company and the Directors shall give effect to such resolution.

Additionally the Company may capitalise any sum on reserve account or sums otherwise available for distribution by applying such amounts in paying up in full partly paid shares of those Members who would have been entitled to such sums if they were distributed by way of dividend or such distribution.

ACCOUNTS AND FINANCIAL STATEMENTS

52. The Company shall cause to be kept proper records of account with respect to all transactions of the Company in such manner as to show the assets and liabilities of the Company for the time being and such records of account shall be kept at the registered office of the Company or, subject to Section 83 (2) of the Act, at such other place as the Directors think fit and shall be open to the inspection of the Directors during normal business hours.

53. The financial year end of the Company may be determined by resolution of the Directors and failing such resolution shall be the 31st day of December in each year.

54. Subject to Section 88 of the Act a balance sheet made up to the financial year end containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure for the period commencing with the first day of such financial year, or for such period as the Directors may agree, shall be laid before the Members in General Meeting.

AUDIT

55. Subject to Section 88 of the Act, at the Annual General Meeting or at a subsequent Special General Meeting in each year, an independent representative of the Members shall be appointed by them as Auditor of the accounts of the Company and such Auditor shall hold office until the Members appoint another

Auditor. Such Auditor may be a Member but no Director or Officer or employee of the Company shall, during his continuance in office, be eligible to act as an Auditor of the Company.

56. Subject to Section 88 of the Act the accounts of the Company shall be audited at least once in every year.

57. The remuneration of the Auditor shall be fixed by the Company in General Meeting or in such manner as the Members may determine.

58. If the office of Auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall as soon as practicable convene a Special General Meeting to fill the vacancy.

59. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or Officers of the Company for any information in their possession relating to the books or affairs of the Company.

60. The statement of income and expenditure and the balance sheet provided for by Bye-Law 54 shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or Officers of the Company, whether the same has been furnished and has been satisfactory; and the report of the Auditor shall be submitted to the Members in General Meeting.

NOTICES

61. A notice may be given by the Company to any Member either by delivering it to him in person or by sending it to his address in the Register of Members or to such other address given for the purpose. For the purposes of this Bye-Law a notice may be sent by mail, courier service, cable, telex, telecopier, facsimile or any other method now known or hereafter invented for transmitting written telecommunication in legible and permanent form.

62. Any notice required to be given to the Members shall, with respect to any shares held jointly by two or more persons, be given to whichever of such persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.

63. Any notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, and the time when it was posted, delivered to the courier or to the cable company or transmitted by telex, facsimile or other method as the case may be.

SEAL OF THE COMPANY

64. The Seal of the Company shall not be affixed to any instrument except over the signature of a Director and the Secretary or any two Directors or the signature of some person appointed by the Directors for the purpose; provided that the Secretary may affix the Seal of the Company over his signature only to any authenticated copies of these Bye-Laws, the incorporating documents of the Company, the minutes of any meetings or any other documents required to

be authenticated by him and to any instrument which a Meeting of the Directors has specifically approved beforehand.

INDEMNITY

65. (1) The Directors, Secretary and other Officers for the time being of the Company and the Liquidator or Trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any wilful negligence, wilful default, fraud or dishonesty which may attach to any of said persons.

(2) Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; PROVIDED THAT

such waiver shall not extend to any matter in respect of any wilful negligence, wilful default, fraud or dishonesty which may attach to such Director.

WINDING-UP

66. If the Company shall be wound up the Liquidator may, with the sanction of a resolution of the Members, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The Liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the Liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

ALTERATION OF BYE-LAWS

67. No Bye-Law shall be rescinded, altered or amended and no new Bye-Law shall be made until the same has been approved by a resolution of the Directors and confirmed by a resolution of the Members.

*

SCHEDULE

FORM A

TRANSFER OF A SHARE OR SHARES

FOR VALUE RECEIVED (fill in amount for purposes of stamp duty)(name in full of transferor) hereby sell assign and transfer unto (name in full of transferee) of (address) (number of shares) of the capital stock represented by the attached certificate.

In the presence of:

Witness Sign Here:

.....
(Transferor)

In the presence of:

Witness Sign Here:

.....
(Transferee)

FORM B

TRANSFER BY A PERSON
BECOMING ENTITLED ON
DEATH OF A MEMBER

I, (or we) having become entitled in consequence of the death of (name of the deceased Member) to (number) share (or shares) numbered (number in figures) standing in the Register of Members of
..... in the name of the said (name of deceased Member) instead of being registered myself (or ourselves) elect to have (name of transferee) registered as a transferee of such share (or shares) and I (or we) do hereby accordingly transfer the said share (or shares) to the said (name of transferee) to hold the same unto the said (name of transferee) his executors administrators and assigns subject to the conditions on which the same were held at the time of the execution thereof; and I (or we) the said (name of transferee) do hereby agree to take the said share (or shares) subject to the same conditions.

WITNESS our hands this day of, One
Thousand Nine Hundred and

Signed by the above-named)
(person or persons entitled))
in the presence of:)

.....
Signature of person or
persons entitled

Witness Sign Here:

Signed by the above-named)
(transferee) in the presence)
of:)

.....
Signature of Transferee

Witness Sign Here:

FORM C

NOTICE OF LIABILITY
TO FORFEITURE FOR
NON PAYMENT OF CALL

You have failed to pay the call (amount of call) made on the day of last, in respect of the (number) share (or shares) numbered (numbers in figures) standing in your name in the Register of Members of, on the day of last, the day appointed for payment of such call. You are hereby notified that unless you pay such call together with interest thereon at the rate of per annum computed from the said day of last, on or before the day of next at the place of business of the said Company the said share (or shares) will be liable to be forfeited.

Dated this day of

.....
(Signature of Secretary)
By Order of the Directors.

FORM D

.....

P R O X Y

I/We of
..... the
holder of shares in the above-named Company hereby
appoint of or
failing him of
or failing him of as my/our
proxy to vote on my/our behalf at the General
Meeting of the Company to be held on the day of
....., 19....., and at any adjournment thereof.

Dated this day of, 19.....

*GIVEN under the Common Seal of the Company

*Signed by the above-named

.....

in the presence of:

.....
Witness Sign Here

*Delete as applicable.

* Premier John Swan
* Minister of Finance Clarence James

Parliamentary Democracy - Success in business attributed to 5 key points

1. Geographical location - Close to U.S., Europe - all of North America
2. Excellent telecommunications
3. Regulatory environment - not overbearing but has necessary checks and balances
4. Level of taxation is low
5. Partnership, Cooperation between business and government.

Population 50,000

Internally self governing - Independent from Great Britain in all but external affairs, internal security and defense. 1968 - Bermuda Const. Order

TOURISM

Really boomed after WWI - because of improved passenger + flight services from New York + Hotels which had been built.

1931 - Castle Harbour Hotel opened SFC-ARC-D000689

WWII - American Bases were major source of income + foreign exchange - Provided fully operational air field

Business

1960's
+ 70's

Exempted company business boomed because of restrictive rules + tax laws in Britain + U.S. Infrastructure already in place - Bermuda was the answer.

Politics &
Govt.

3 Parties - First General Election under new constitution - United Bermuda Party became ruling party - Conservative. Also have Progressive Labor Party, National Liberal Party
80 Govt Advisory Boards - 600 people from comm.

Balanced Budget

Bermuda Airport. Maintained by US Naval Air Station (traffic flow)

TAXES -

On corporations: No Income/Profits Tax, Sales Tax, Capital Gains, Gift or withholding Tax.
Instead: 1) Annual Company Fee (Registration)
2) Licensing Fee on Insurance Co.'s
3) Employees Pension (Govt) Plan

Exempted Undertaking Tax Protection Act of 1966 - apply for and receive an undertaking, or agreement, from Bermuda Govt that in event taxation is introduced, it will not apply to company until 2016.

(Activation)

- * Members Meeting - ARC gives me proxy (prepared by CD & P) to elect board once it is incorporated & shares (issued whenever printed & filled out)
- * Minute book stays in Bermuda - Originally, incorporating documents, licence. By laws, tax exemptions - Copy
- * Directors - Later on we can add
- * Must have an annual meeting (at least annual) to appoint directors, approve financial statements etc.
 - Can be anywhere (does not have to be in Bermuda)
 - Also do not have to have full scale Board meetings - Can have two (2) e.g. a Finance Committee BR & GA
- * Corp. Officers - carry no executive power
 - President - chairs meetings
 - V.P. chairs in President's absence
- * Directors are held harmless - Indemnification
- * Operating costs excl. claims (auditing, mgmt, license, etc.)

* Signatory on Investment Mgt. account should be officer and/or director of the capsule.

* Tax exemption will apply until year provided even if tax legislation is introduced to tax profits.

* Fees to CD & P

\$ 150	Application Fee
2,250	Co Registration Fee
2,100	Ins. License
25,000	Stamp Duty
50	Filing Fees
<hr/>	
\$ 29,550	

\$ 2,500
2,000
750
2,500
<hr/>
\$ 7,750

CD & P Ongoing Fees
Ongoing Reg Fees
Renewal of Co. License
Directors Fee
Corp. Secretaries (Minutes)

SFC-ARC-D000692

* Capitalization - \$10,000,000 has to be paid in prior to operation - Can't get license until paid in by 6/27/88. local signatories - therefore Bill will

have to direct CD & P of James where to
send for investment.

By Laws

Directors - Form

4. (1) * Flexibility - Minimum of 2 or any higher number deemed necessary by Directors / Members
- (2) Power to fill vacancies as they see fit
- (3) Alternates - generally only necessary for the Bermuda quorum.
- (4) Removal of director

5. Stock (one share)

6. Self Regulating

7. Any two directors can convene a meeting
The secretary can convene a meeting if so directed by President or Vice President.

Directors - Powers

12. (3) Managing Director / CEO of company - supervises and administers all business and affairs of the company
- (4) Mgmt Company
- (6) Law Firm

SFC-ARC-D000694

13. Delegation of powers to committee of 2 or more

Officers

15. (1) President, V.P. Secretary & others as deemed necessary.
(2) Appointed after General Meeting or Statutory Meeting of Members.
17. President chairs meetings
V.P. acts in his absence

Meetings, Meetings, Meetings

21. General Annual Meeting necessary 5 days notice
election of new Director

22. Frequency - completely open beyond annual

General procedures - ballots, fund raising etc.
can be modified & I will pursue this at a
later date.

Indemnification

65.

Capture

1. Meetings - How Often? At least in Bermuda
- Where? 1 in Bermuda, all others
can be off-shore, Canada, Mexico
Can have informal meetings (Non-resident)
2. Premium Payments - One up front or
twelve Monthlys? ~~There can~~
3. Cash Reserves - Where invested? How controlled
As long as not in U.S. currency or in US property
4. (a) Pre-Incorporation Phase: Application to
Registrar (Monetary Authority) - Includes
details of business plan and feasibility study
- Is the consulting report sufficient?
- Submission by local attorney - Who
would be recommended for this?
How soon?
- (b) Incorporation - After approval of business plan
and application - Petition to registrar's
office - What is involved?
- (c) Registration - Authority granted by Registrar's
office to commence business

SFC-ARC-D000696

Approval stage demands selection of CPA
firm and banking arrangements. When
is management company selected? Can
we put together a time frame & schedule of
needed travel?

Regulation

(A) In Bermuda alone many reinsurers that
capture's financial situation
for traditional insurer to recognize
Reins. Co. must be approved carrier in state.

(B) captive, have no such requirement - Also
many of these reinsurers would not
want to be recognized by states (eg., N.Y.,
Taxes & assessments. Captive can deal @
them.

1,000 captives in Bermuda (C)
Division for writing 3RD (Subtena)
Mobil's captive (Bluefield) Exxon (Inco)
Texaco

→ If nonadmitted reinsurers are used,
you (insurer) has to have complete
security (LOC) from reinsurer.

Not locked into insurance market of U.S. -
"Good Old boy's" club or cartel.

Startup costs

Registers	3,750
Application Fee	100
Asst.	300
Initial Legal Fees	<u>3,000</u>
Total	7,150

1/4 of 1% of Capital
Stamp Duty

<u>25,000</u>
<u>32,150</u>

1/25/88

Meeting with Todd Langley

- * Need to add "A member of Finance Committee to the Steering Committee in Agenda Item
- * Number of copies of Consulting Report = 20
- * Appendices should include the pay-out/reporting period
- * Need to re-do The Chart

1/7/88

Property / Bob Davis

They would be involved in fronting D+O, E.I.P,
~~Wholly~~

Retention \$250,000

Agg. Stop Loss \$1,000,000

1984-1987 - Additional Losses \$300,000 that
are included on the Dec. loss re-evaluation.
Losses originally summarized used May, 1987.

Flood & Quake

California quake - A sublimit would be
required - Series \$5,000,000/acc. \$10,000,000 Agg. (?)

Boiler - Would have to reinsure 100% (ALG would)
Recommendation would be to keep under separate policy,
not with captive.

Could take Deck of \$250,000 or could take Quota Share
(eg, if you wanted to ease into the risk sharing)

Pollution - \$3/6 Million exclusive of defense costs.

Would cover gradual & sudden & accidental.

ALG, where they return all risk (100% ceded) Minimum
fees are typically \$100,000.

D+O - \$1,000,000 - STR (Captive)
25,000,000 - Excess

SFC-ARC-D000700

Losses = 8,629

PAYOUT PATTERN:	YEARS				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
%	34	53	63	73	81

REPORTING PATTERN:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	%	65	81	90	95

LINE	PAYOUT PATTERN:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1	\$(000)	2,934	1,639	863	863	690
2	CUMULATIVE	2,934	4,573	5,436	6,299	6,989

	REPORTING PATTERN:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
3	\$(000)	5,608	1,381	777	432	86
4	CUMULATIVE	5,608	6,989	7,766	8,198	8,284

UNPAID CLAIM

RESERVE LEVEL

5	(LINE 4 - LINE 2)	2,674	2,416	2,380	1,899	1,295
6	Δ	2,674	(258)	(86)	(431)	(604)

IGNR

	(LOSSES - LINE 4)	3,021	1,640	863	431	345
	Δ	3,021	(1,381)	(777)	(432)	(86)

SAMPLE JOURNAL ENTRIES
FIRST TWO YEARS

1988-89

ENTRY TO RECORD TOTAL ULTIMATE EXPECTED
LOSSES ON AN ACCRUAL BASIS FOR THE
FIRST POLICY YEAR.

DR. EXPENSE	\$	8,629
CR. CASH (CLAIM PAYMENTS)		2,934
CR. RESERVE - UNPAID CLAIMS		2,674
CR. RESERVE - IBNR		3,021

1989-90

ENTRY TO RECORD PAYMENTS MADE ON FIRST POLICY
YEAR AND TO ADJUST IBNR RESERVE

DR. RESERVE - IBNR		1,381
DR. RESERVE - UNPAID CLAIMS		1,639
CR. CASH (CLAIM PAYMENTS)		1,639
CR. RESERVE UNPAID CLAIMS		1,381

ENTRY TO RECORD TOTAL ULTIMATE EXPECTED LOSSES
ON AN ACCRUAL BASIS FOR THE SECOND YEAR

DR. EXPENSE	\$	8,629
CR. CASH		2,934
CR. RESERVE - UNPAID CLAIMS	SFC-ARC-D000702	2,674
CR. RESERVE - IBNR		3,021

Marty - Brokerage Fees / Excise tax

- To show in scenarios removed. incl. Rent-a-captive
- Include domicile comparison sheet

✓ What is a captive insurance company ^{Potential for system expansion}

- Definition
- Diagram / Structure

✓ Why does ARC need a captive?

- Traditional Arguments
- How they relate to ARC experience
- Long term potential.

✓ What insurance coverages will be provided by the captive?

• What are the financial implications for the Red Cross Corporation?

✓ Is the captive ^{Is the captive} administratively practicable?

✓ What are the implications for chapters and blood centers?

~~Where will the captive be located~~

✓ Will the ^{utilization} captive formation of a captive insurance company increase the level of risk being assumed by the Red Cross Corporation?

✓ Where will the ^{proposed} captive insurance company be located and why?

SFC-ARC-D000704

~~How near the domicile should it be?~~

Appoint board or steering committee

People who are supportive of concept
later would form nucleus of Board
Ad-hoc committee for getting word
out to all those concerned @
structure
loss control

4 Members -

- Chairman (Influence/Cooperative)
- ~~Director~~ ^{Legal} @ Exec. Committee action
- Investment/Committee
- Audit Committee
- Risk Management/Loss Control committee

NJB

G. Daniels Financial
 Bill Rose Auditors
 Jack Rappell
 Steve Richards

Legal & Finance
Investments

Expenses are factor in choice of number.

Board - 7 Members

Special Interest Groups

SFC-ARC-D000705

Paranuda Resident

→ Have to be able to attend Working Group
 Tue to come to meeting esp. during
 first 2 years
 Prevents ramrodding by Risk Mgr.

REPORT TO BOG
POINTS TO BE
ADDRESSED

1. Captive not being considered for financial advantages - S/B comparable cost-wise to current program, even slightly more expensive.
2. Experiences of the hard market would encourage efforts to become more independent. Cannot follow current market trends, i.e., softening of prices and expanded coverage capacity to entice us into assuming "Happy Days are Here Again" posture. Examples of Hard Market Position:
 - Loss of AIDS coverage
 - Reluctance to write any liability coverage for Blood Services
 - Reluctance to even consider exposures related to Transplantation services.
 - Forced to accept claims made form for all general liability coverage
 - Forced to self-insure legal expenses outside of deductibles and retro limits.Underwriters now seeming to come out of the woodwork to offer limited forms of coverage for above items. Other effects:
 - Increases in excess, umbrella, D+O premium
 - Restrictions on cover for wrongful termination
 - Loss of coverage for Pollution.
 - Higher deductibles

3. Advantages of Captive for Primary program

- o Ability to maintain a disciplined funding mechanism for A&S liability, Ability to provide policy and definitive limits.
- o Ability to maintain coverage terms (to write back in) for
 - Pollution
 - Transplantation services
 - Legal expenses
 - Wrongful termination / discrimination (where legal to do so)
 - All personal injury
- o Overall stability for independence of primary program during market cycles.
- o Better, easier access to reinsurance markets

4. Groundwork has already been laid

- o Independent Claims facility & front carrier
- o Changes to funding structure will be transparent to the field

5. Recommendation of domicile

- o Based on comparison of costs, regulatory environment and Insurance / Banking infrastructure.
- o Comparison of captive operations in domicile

6. Plan - Set up first
- Review at later time, the potential for 3rd party business
 - Explore further potential economies through SIR 3 for GH and Qualification as self-insurer for WC in certain states, etc.

Frutson Dec. Analysis
12/30/87

- Nowhere does the analysis show total cost - Showing gross premium only is deceiving
- Also, in Situation one (1), SIR losses are totally ignored, deceptive to show only gross premium
- Also, where are management fees, actuarial, and auditing/accounting fees?
- Analysis ignores comparisons requested for total program. Also does not include property.
- Have to agree on what #'s we'll be using for claims handling.
- Is Party going to do the cash flow performance?
- AIDS has to be addressed somewhere.

12/15/87

- ① AIDS Coverage
- ② Wrongful Termination
- ③ Pollution (EIL)
- ④ D+O Liability - Cannot do this / Need diff. department

* Need fronting carrier - Auto, WC.
Will not participate in AIDS coverage, but will on Wrongful Termination - However, if we do not front G.L. (excl. AIDS), reinsurance (excess) will be more costly.

* If ARC arranged own reinsurance (i.e., did not provide excess) AIG would still front. But you would have to provide security for entire amount fronted. (e.g., \$5/10 million). Some will be provided by other reinsurers.

* Alternative bonding arrangement (colateral) Citicorp.

* D+O - Are you creating an exposure by self-insuring it.

- 12/8/87 - Meeting @ Murty Nadel
- V.A. Hospitals
Lee Hoyer grants/contracts with Gov't.
- 1) Ask Counselor's Office re: Funding GL (Only Government)
 - 2) Set up mtg @ AIG - Pricing
 - ✓ 3) Find out what projected AIDS Revenue & are for 7/1/88. (See attached)
 - 4) Date of mailing Agenda Item to VBOG
Date January ~~1988~~?
-

Format of Report

- I. Executive Summary
- II. Methodology & Approach
 - Domicile Selection
- III. Financial Analysis / Considerations
- IV. Other Considerations
 - Long term objectives
 - Access to reins.
- V. Formal recommendation & Implementation
- VI. Appendixes

ROUTING SLIP

D

ROUTE IN TURN TO:

DATE FORWARDED

INITIALS

Monthly Payments
 \$250,000/mo.

Sept 31, \$2,500,000 Bal.

Interest \$18,000/mo

4,600,000 - 4,800,000
 by 11/1/88

CHECK ACTION	Acknowledge	Copy For You	Note & Forward	See or Phone Me
	Approval	File	Note & Return	Signature
	Circulate	Follow-up	Per Phone Call	
	Comment	Information	Prepare Reply	
FROM				EXTENSION

American Red Cross Form 4394B (1-49)

SFC-ARC-D000712

(000)

Expenses	Current	Captive By Domicile
Losses	8,629	8,629
Claims Handling - Crawford	561	561
Basic - AllG	700	-
Fronting Fees - AllG (87)	-	-
State Taxes	271	-
Excess / Reinsurance	1,326	1,326
LOC Charges / Banking Expenses	15	45
Operating Expenses:		
Management Fee	-	40
Legal, Accounting, etc.	-	20
Govt. Fee	-	5
Misc. Exp.	-	20
Excise Taxes	-	-
Total Cost to ARC		

First Year Cash Commitments by ARC - NHQ

Capitalization	-	5,000	Captive by Domicile 8,000
Premium Payments - 120 days	11,500		
Losses -	2,400	8,629	Captive 11,000
Other Expenses - Basic/Front	700		
Claims H.	561	561	
Taxes	271		
Excess	1,326		
LOC	15	45	
Operating		85	

Notes on Oct '87 Report

- 1) Need to have a more definitive analysis comparing current program with Captive approach in following areas:

Expenses - The current analysis does not show all additional costs of captive. To do so, we have to consider fronting fees (how they differ), taxes, management fees & other captive operating expenses, side by side with expenses of current program.

Cash Flow - Need to analyze cash flow over a period of time, not only of the captive (vis a vis its own financials) but the cash flow to the organization.

Structural changes in policies - Scenarios should show comparison and/or "what if" scenarios for inclusion of property programs, & D+O.

- 2) Need to address why Capitalization requirement is so high - i.e., \$10,000,000 for a \$1,000,000 policy. Domicile requirements do not seem that high.
- 3) Need to explain the capital & surplus charts.
- 4) Need to explain what expenses for ARC (i.e., WC, Auto, GL, D+O) have to be fronted according to domicile requirements and which do not.

Factors in Choosing Capture Domicile

1. Difficulty in obtaining a charter
2. Initial Capital & Surplus Requirements
3. Regulation of investment activities
4. Financial disclosure (i.e., financial statements) requirements (frequency)
5. Filing requirements for rates and forms.
6. Premium volume limitations as a multiple of capital and surplus.
7. Participation requirements (in FAIR Plans and in residual markets).
8. Participation in state insurer insolvency funds
9. Income tax considerations.

V. Pay-out

	1	2	3	4	5
<u>Casualty</u>					
WC, ALPA	34	19	10	10	8
Property	90	10	-	-	-
D+O	1.8	5	10.6	13.8	12.1
AIDS	2.2	4.6	7.0	10.9	12.2
combined	35	17.4	9.4	9.7	8.1
Cumulative		52.4	61.8	71.6	79.62

Reporting

<u>Casualty</u>	65	16	9	5	1
Prop.	81	19	-	-	-
D+O	19	28	28	5	11
AIDS	14.8	28	20.2	14.0	9.7
Combined	61.19	17.17	9.69	5.57	1.73
Cumulative	61.19	78.36	88.04	93.61	95.34

Interest Rate

6.5%

AMERICAN RED CROSS
CAPTIVE PROPOSAL
COMPARISON OF EXPENSES

	<u>Current Program</u>	<u>Bermuda Captive Scenario 4</u>	<u>Difference</u>
<u>EXPENSES</u>			
<u>CASUALTY</u>			
Losses Within Program	8,629,000	8,629,000	
Losses Subject to SIR	- 0 -	- 0 -	
State Taxes			
Auto Liability	- 0 -	131,849	(131,849)
Auto P.D.	- 0 -	36,687	(36,687)
G.L.	- 0 -	- 0 -	
Workers' Compensation	305,474	305,474	
Basic Charges	700,000	540,000	160,000
Claims Handling	589,000	589,000	
Reinsurance	1,326,000	1,326,000	
Fed. Excise Taxes	- 0 -	- 0 -	
Other Premium Taxes	- 0 -	- 0 -	
LOC/Bank Charges	21,000	21,000	
Legal, Accounting, etc.	- 0 -	20,000	(20,000)
Management Fees	- 0 -	40,000	(40,000)
Misc.	- 0 -	25,000	(25,000)
Total Casualty	11,570,474	11,664,010	(93,536)
PROPERTY PREMIUM	700,000	450,000	250,000
D&O PREMIUM	205,375	154,031	51,344
TOTAL COSTS	<u>12,475,849</u>	<u>12,268,041</u>	<u>207,808</u>

AMERICAN RED CROSS
CAPTIVE PROPOSAL
COMPARISON OF FIRST YEAR CASH OUTLAY - NHQ

	<u>Current Program</u>	<u>Bermuda Captive Scenario 4</u>	<u>Difference</u>
<u>FIRST YEAR CASH OUTLAY</u>			
CASUALTY			
Guaranteed Cost Premium			
Losses Within Program			
Losses Subject to SIR			
State Taxes			
Auto Liability			
Auto I.D.			
G.L.			
Workers' Compensation			
Basic Charges			
Claims Handling			
Reinsurance			
Fed. Excise Taxes			
Other Premium Taxes			
LOC/Bank Charges			
Legal, Accounting, etc.			
Management Fees			
Misc.			
Total Casualty			
PROPERTY PREMIUM			
D&O PREMIUM			
TOTAL COSTS			

AMERICAN RED CROSS-PROPERTY LOSSES

Claim No.	Loss Date	Location	Description	Reserve	Paid	Expense	Total	C/O-CNP
025330	07/00/87							C-CNP
025070	07/05/87				1889.50		1889.50	C
024650	07/09/87	Philadelphia, PA	Water damage to warehouse		8506.00		8506.00	C
028846	07/14/87	Borger, TX	Bldg. damaged by hailstorm		270.90			C
026989	07/23/87		Cts. of veh-blood plasma destroyed		2885.05		2885.05	C
027154	07/24/87	Borger, TX	Bldg. damaged by hailstorm					C-CNP
027209	07/27/87	St. Louis, MO	Lightning to Gas Pumps		4966.85	761.88	5748.73	C
029623	08/02/87	Santa Ana, CA	Theft-Burglary	3000.00			3000.00	0
027454	08/02/87	Santa Ana, CA	Some unk broke into bldg and stole items	8000.00			8000.00	0
027637	08/13/87	Atlanta, GA	Lightning damage to bldg. & cts.		20694.07		20694.07	C
029074	08/21/88	Oklahoma City, OK	Theft		550.49			
027996	09/10/88	Los Angeles, CA	Property stolen from Insd. Premises					C-CNP
027153	09/16/87	Washington, DC	Theft	100.00			100.00	0
027490	09/30/87	Plainfield, NJ	Store front damage		3014.61		3014.61	C
027103	10/18/87	Sinking Springs Valley, PA	Co. property destroyed in fire while at demo site		4595.95		4595.95	C
026807	10/01/87	Whittier, CA	Earthquake	50000.00		321.75	50000.00	0
026675	10/01/87	Whittier, CA	Earthquake damage					C-CNP
026672	10/01/87	Alhambra, CA	Build Walls					0
026667	10/01/87	Alhambra, CA	Earthquake	10000.00		268.13	10000.00	0
026674	10/01/87	Pasadena, CA	Earthquake damage to bldg.					C-CNP
026808	10/01/87	Pasadena, CA	Building walls					C-CNP
027273	11/16/87	Fremont, CA	Fire		48729.91	2505.72	49331.91	C
027371	11/22/87				176.99		176.99	C
027801	11/30/87	Ocala, FL	Unk. forcibly entered bldg and stole items					C-CNP
028276	12/29/87	St. Paul, MN	Insd's radio equip. stolen	7500.00			7500.00	0
027873	01/07/88	Dayton, OH	Building fire	195000.00	25000.00		210000.00	0
028446	02/08/88		Theft of office equip.		100.00			C
028564	02/15/88	Greenbay, WI	Insd. spilled can of paint on rug		149.12			C
028446	02/20/88		Theft of Office Equip.					C
028565	02/21/88	Greenbay, WI	Insd. spilled can of paint on rug					C-CNP
028611	02/21/88	Jenkintown, PA	Fire in building		92050.25	752.00	92802.25	0
028934	02/25/88	Charleston, SC	Blood Damage	5000.00			5000.00	0
029042	03/01/88	Huntington, NY	Fire in Bldg.	17000.00				0
028851	03/14/88	Tacoma, WA	Pipe burst in basement	1000.00			1000.00	0
029138	04/01/88	New Orleans, LA	Possible Flood Damage	2500.00				0
TOTALS				289100.00	213579.69	4609.48	484245.06	

SFC-ARC-D000719

4/28/88

AMERICAN RED CROSS

PREMIUM

=====

FRED. S. JAMES & CO. INC.
ARLINGTON, VIRGINIA

POLICY ISSUANCE
CERTIFICATES
ETC.

STOCK OR POLICY
DIVIDENDS
VIA UNDERWRITING
& INVESTMENT INCOME

LESS EXPENSES

- (BROKERAGE/CONSULTING)
- (LOSS CONTROL)
- (PREM. TAXES & ASSESSM'TS)
- (CLAIMS HANDLING)
- (UNDERWRITING/ADMIN.)
- (REINS. (SPECIFIC))

(EXPENSES)

PREMIUM CEDED
TO CAPTIVE

=====

AMERICAN RED CROSS
CAPTIVE

LESS OPER. EXP.

- (CAPTIVE MGMT.)
- (LEGAL/AUDIT)
- (GOV'T FEE)
- (BANKING FEES)
- (MISC. (TRAVEL, HOTELS, MTGS))

(EXPENSES)

NET FOR LOSSES
IN CAPTIVE LAYER

CAPITAL

10 X PER LOSS
RETENTION

PROPERTY LOSSES

AMERICAN RED CROSS - LOSSES BY POLICY YEAR

YEAR	RESERVE	PAID	RECOVERED	EXPENSE
7/01/75-76		\$ 58,337	\$ 946	\$ 6,390
7/01/76-77		92,703	1,557	8,499
7/01/77-78		401,522	114	18,001
7/01/78-79		538,663	3,013	26,592
7/01/79-80		209,679	4,419	14,820
7/01/80-81		339,727	6,788	21,493
7/01/81-82		214,257	2,108	18,755
7/01/82-83		155,658	1,000	11,936
7/01/83-84		287,369	3,465	21,089
7/01/84-85	\$ 3,000	534,091	1,703	17,960
7/01/85-86	2,450	248,869	3,846	11,517
7/01/86-87	108,895	210,409		3,031
TOTAL	\$114,345	\$3,291,284	\$28,959	\$108,083

Handwritten notes:
 - A bracket groups the years 7/01/84-85 through 7/01/86-87. The total paid for these years is $534,091 + 248,869 + 210,409 = 1,036,396$.
 - A bracket groups the years 7/01/82-83 through 7/01/86-87. The total expense for these years is $11,936 + 21,089 + 17,960 + 11,517 + 3,031 = 65,533$.
 - The reserve for 7/01/84-85 is $3,000 + 2,450 + 108,895 = 114,345$.

Premiums

7/01/82-83	\$381,200
7/01/83-84	\$356,200
7/01/84-85	\$388,700
7/01/85-86	\$439,200
7/01/86-87	\$787,620
7/01/87-88	\$673,565

Claims not on the attached Loss Runs - Paid amounts are included above

- 14/85-Blood in Transit went bad-Columbus, OH-----Paid--\$ 7,680.
- 08/87-Vacant Bldg. set on fire by vandals-Camden, NJ--Paid--\$50,000.
- 12/87-Vandals set Bldg. on fire-Camden, NJ-----Paid--\$50,000.

1982-87 Losses (Five Years)

Payments \$ 1,436,396

Reserves 114,345

Expenses 65,533

Recoveries (10,014)

Net $\$ \underline{1,606,260} \div 5 = 321,252$

321,252

$\div .75$

428,336

Avg. Claims/Year

SFC-ARC-D000721

AMERICAN RED CROSS
 FIRST YEAR CASH OUTLAY
 PRIMARY CASUALTY PROGRAM - WORKERS' COMP, AUTO LIABILITY
 AND PHYSICAL DAMAGE AND GENERAL LIABILITY

(A) CAPTIVE INSURANCE COMPANY

ESTIMATED AMOUNT
 OF EXPENSE

(1) CAPTIVE MANAGEMENT	\$40,000
(2) CHARGES FOR THE BANKING SERVICES	\$21,000
(3) GOVERNMENT FEES	\$5,000
(4) LEGAL/AUDIT EXPENSES	\$20,000
(5) LOSSES PAID	\$2,934,000
(6) TRAVEL EXPENSES	\$20,000

SUBTOTAL	\$3,040,000

(7) CLAIMS HANDLING	\$561,000
(8) FRONT FEES	\$700,000
(9) STATE TAXES/ASSESSMENTS	\$271,000
(10) REINSURANCE CHARGES	\$1,326,000

	\$5,898,000

TOTAL	\$8,938,000
	=====

(B) AMERICAN RED CROSS NATIONAL HEADQUARTERS

(1) PREMIUMS	\$11,487,000
(2) CAPITALIZATION	\$10,000,000
(3) BROKERAGE FEES	UNKNOWN
(4) BANKING CHARGES FOR L.O.C.'S	1/2 OF 1%

TOTAL	\$21,487,000
	=====

SFC-ARC-D000722

WRITE @		CURRENT PROGRAM			
		TOTAL	WC	AUTO	GL
1	<u>CASUALTY PROGRAM</u>				
2	<u>EXPENSES:</u>				
3	Losses	8,629	3,665	3,371	1,593
4	Claims Handling	626	176	225	225
5	Basic / Fronting Fees	700	301	273	126
6	State Taxes / Assessments	283	234	59	-
7	L.O.C. / Bank Fees	15	6	0	3
8	Interest on Notes	21	21	-	-
9	Management Fees	-	-	-	-
10	Legal, Accounting, etc.	-	-	-	-
11	Govt. Fees	-	-	-	-
12	Excise Taxes	-	-	-	-
13	Misc.	-	-	-	-
14	Excess / Reinsurance	1,326	66	500	960
15	<u>TOTAL</u>	<u>11,600</u>	<u>4,459</u>	<u>4,294</u>	<u>2,847</u>
18	<u>FIRST YEAR CASH OUTLAY</u>				
19	<u>CORPORATION:</u>				
20	Losses				
21	Claims Handling				
22	State Taxes / Assessments				
23	Other Expenses				
24	<u>TOTAL</u>				
16	<u>NATIONAL H.Q.:</u>				
17	Losses				
18	Claims Handling				
19	State Taxes / Assessments				
20	Other Expenses				

6		7		8		9		10		11		12		13	
BERMUDA CAPTIVE TOTAL				BARBADOS CAPTIVE TOTAL				VERMONT CAPTIVE TOTAL							
8,629	626			8,629	626			8,629							
45															
40															
20															
5															
1,326				1,326				1,326							

SFC-ARC-D000724

The logo for James Risk Management Services, featuring the word "James" in a bold, white, sans-serif font with a horizontal line underneath.The text "RISK MANAGEMENT SERVICES" in a bold, white, sans-serif font, positioned below the "James" logo and underlined.The alphanumeric code "SFC-ARC-D000725" in a white, sans-serif font, enclosed in a white rectangular box.

James

AMERICAN RED CROSS

CAPTIVE INSURANCE COMPANY PROPOSAL

Prepared By:

Fred. S. James & Co., Inc.
Captive Development & Planning Division
830 Morris Turnpike
Short Hills, NJ 07078

January, 1988

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II. Methodology and Approach	3
III. Financial Comparison	9
IV. Long Term Considerations	12
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SFC-ARC-D000727

I. Executive Summary

The purpose of this proposal is to recommend that the American Red Cross form a captive insurance company (a wholly-owned insurance subsidiary) to insure its fire and allied perils insurance, general and automobile liability insurance, workers' compensation, and directors and officers liability insurance. After an exhaustive examination of several potential domiciles, including both domestic and off-shore jurisdictions, we recommend that the proposed American Red Cross captive be domiciled in Bermuda.

Forming a captive insurance company is essentially a self-retention alternative. It is one of several methods by which a corporation can fund a portion of the risk it can not reasonably transfer, by virtue of reduced capacity or excessive pricing in the traditional insurance marketplace. Therefore, the corporation must retain the exposure. It is important to recognize that a complete transfer of risk is no longer economically feasible for the American Red Cross and that some measure of self-retention through a captive insurance company should produce an improved economic cost over the long term.

The formation of a captive insurance company is a decision which involves the formal transfer of insurance from the traditional insurance marketplace to an insurance subsidiary. The motives vary for each corporation, however the most common reasons are as follows:

- 1) To recapture premiums in excess of the predictable losses.
- 2) To obtain control over the claim reserves.
- 3) To control cash flow.
- 4) To gain access to worldwide reinsurance markets.
- 5) To insure the unusual or uninsurable exposures.

For forty-plus years prior to 1987, the American Red Cross was insured through The Travelers Insurance Company. As a result of the restricted renewal conditions, essentially through reduced capacity, exclusion of certain required coverages, and increased premium costs, the account was moved to the American International Group. The Travelers program clearly demonstrated the lack of control over the program by the American Red Cross. Insurance market swings, not necessarily the American Red Cross loss experience controlled the cost and availability of coverage.



This report is based upon the evaluation of various captive insurance/reinsurance programs. We have analyzed several possible captive structures at various retention levels enabling us to:

- 1) explore premium costs given the coverage provided and the predicted losses; and
- 2) analyze the conceptual financial structure of the proposed captive insurer/reinsurer.

The basis of the analysis are the pro-forma financial statements which are included in the financial comparison section. Here is a summary of the retained earnings as respects the casualty program only based upon a Bermuda domicile subject to a per loss retention of \$1.0 million:

----- Fiscal Year -----	----- Retained Earnings -----
1988	\$ 195,000
1989	\$ 803,000
1990	\$ 1,638,000
1991	\$ 2,668,000
1992	\$ 3,863,000

Given the loss estimates as provided by the Fred. S. James & Co., Inc. Risk Management Consulting Group and the indications of the program expenses by the American International Group, the total cost (including the continuing operating expenses) for a captive arrangement for the casualty program is \$11,664,010. As compared to the existing insured program cost of \$11,570,474, this represents an increase of \$93,536 (less than 1%).

The increase in the total casualty program cost of \$93,536 is more than offset by the projected savings of \$250,000 in the property insurance program and \$51,000 savings in the directors and officers liability insurance program. Refer to the financial comparison section for the premium cost comparisons.

In summary, the proposed captive for the American Red Cross can provide a long-term stable insurance alternative with significant coverage and cost benefits, currently unavailable in the traditional insurance marketplace.

II. Methodology and Approach

A: Methodology:

We have explored and examined several different captive structures and various possible domiciles for the proposed American Red Cross captive. We have also looked at a rent-a-captive (Richmond Insurance Company) approach with respect to the AIDS coverage problem that currently exists.

The Richmond Insurance Company which is a Barbados based rent-a-captive owned principally by the Munich Reinsurance Company would require a fully funded program, i.e., total premium and letters of credit would have to equal the full aggregate policy limit. After close evaluation, it was concluded that a wholly-owned captive insurance facility out-performs the proposed Richmond program due to its lower expenses and higher yield on investment (The Richmond takes 150 basis points on the investment yield as part of its fee).

We have also explored combining the proposed American Red Cross captive with other organizations with similar or related exposures. It was concluded that this approach would be unwise at the present time since it would unnecessarily expose the captive to third-party loss experience of which the American Red Cross has no control. However, it can be reevaluated at a later time as part of the long-term objectives of the captive.

The captive structures that we have explored are as follows:

- 1) A "fronted" program for all coverages. The general liability portion only would be subject to a \$100,000 self-insured retention by the American Red Cross.
- 2) A "fronted" program for all coverages with the exception of the general liability portion which would be written on a direct basis from the captive.
- 3) A "fronted" program for all coverages.

A captive program normally requires that a licensed commercial carrier ("front") be used to issue the required insurance policies, since the captive insurance facility would not be recognized by state regulators for workers' compensation and automobile liability coverages. Therefore, the captive would be a reinsurer of the commercial carrier rather than the issuing company. In some instances, it is also necessary to utilize the commercial carrier for the general liability coverage when the insured is required by virtue of its contractual arrangements to provide and issue certificates of insurance to certain vendors and/or lessors. We have been advised by the American Red Cross

that they are required to produce certificates of insurance. They do feel that certificates of insurance issued directly by the captive would be satisfactory. Therefore, the captive would be able to issue the general liability policies on a direct basis thereby eliminating the services and costs of the front carrier.

For each of the captive structures mentioned, we have looked at various possible domiciles including both domestic and off-shore jurisdictions. A summary comparison of the domiciles explored is attached for review. As mentioned in the executive summary portion of this proposal, we have recommended that the proposed captive be domiciled in Bermuda. Our reasons for this selection are based on the facts that Bermuda is the oldest captive domicile and can boast of a very strong infrastructure and support services. Its reinsurance network is very extensive and it can easily access worldwide potential markets. Captives formed in Bermuda are unencumbered by regulatory agencies and enjoy total freedom in the areas of rates and forms, investment and exchange control. In addition, modern telephone and telex links exist permitting instant communications worldwide and the island is serviced by regular airline schedules to principal U.S. cities as well as Canada and London.

The island of Barbados was also considered as a possible domicile for the American Red Cross captive. The main advantage that Barbados enjoys over Bermuda is the tax treaty with the United States which, in summary, eliminates the imposition of the Federal Excise Tax. However, it is our understanding from the American Red Cross that since the American Red Cross is a federally chartered organization, under the Internal Revenue Code they would claim exemption from the tax. Therefore, the case for a Barbados domicile is a moot point.

Several on-shore domiciles were explored as evidenced by the attached jurisdiction comparison. Whereas, Vermont has the most favorable legislation and openly encourages captive formation, it is a relatively new jurisdiction and does not possess as sophisticated captive support services as Bermuda does. Captives domiciled in Vermont are liable for a state premium tax of .8% on premiums paid directly to the captive and .3% on premiums assumed through reinsurance. Captives based in Bermuda are not subject to a state premium tax, but they are subject to a nominal government fee.

After carefully examining the various proposed captive structures, we would recommend that the American Red Cross captive be structured such that there would be a fronted program for all coverages, except the general liability portion. The general liability program would be written on a direct basis from

the captive. Since a front carrier would not be required for the general liability there would be considerable cost savings associated with this captive structure. A graphic illustration of this captive structure is on Exhibit 1.

Conceptually, should the American International Group be selected as the program underwriter they would issue the required policies for the workers' compensation and automobile liability (including physical damage). They would, in turn, reinsure the first \$1,000,000 of coverage to the American Red Cross captive. Coverage in excess of the captive's retention to the full policy limit (\$5.0 million) would be insured by the American International Group. The general liability program would be written directly from the captive, and, as previously mentioned a front carrier would not be required. The general liability coverage would be considered as "non-admitted" since a licensed commercial front carrier would not be necessary. General liability coverage for the first \$1.0 million would be provided by the captive and the American International Group would respond in excess of the captive's retention to the full policy limit (\$5.0 million). Wrongful termination coverage would continue to fall under the general liability policy form. In addition, the American International Group has agreed to provide a modified form with reduced limits of liability for sudden and accidental pollution coverage.

There would be absolutely no coverage for AIDS under the American International Group liability policy form. However, we envision a formalization of the current funding mechanism through the American Red Cross captive. As we understand, the individual blood centers are charged a "premium" on each donation, which goes towards a funding arrangement for potential AIDS cases. We recommend that an "insurance policy" be issued directly from the captive subject to a per occurrence limit and an annual aggregate limit equal to loss fund (projected to be \$5.0 million as of July 1, 1988). The "premium" paid by the blood centers would continue to be paid to the American Red Cross National Headquarters, however, the National Headquarters would then cede the monies to the proposed captive. There would be no coverage above and beyond the captive's limit of liability. Claims in excess of the captive's per loss limit and ultimate aggregate would be the responsibility of the National Headquarters. There would be no excess coverage provided by any umbrella policies currently in effect. By structuring the AIDS "coverage" through the American Red Cross captive, it would add a degree of legitimacy to the "premium" charges being levied on the individual blood centers and serve to place the National Headquarters at a "arms distance" from the program. As already mentioned the excess umbrella policy form would not respond to claims involving AIDS. The captive ultimate risk would be the full value of the loss fund. Therefore, the capital base of the proposed captive would not be affected should the experience adversely change. As the

"premiums" collected increase, the amount of the "coverage" could increase proportionally. As another option, we had looked at a rent-a-captive approach for this program through the Richmond Insurance Company. However, the costs to administer such a program and the fees payable to the Richmond make the option unattractive at the present time.

Finally, as respects to Directors and Officers liability coverage, we are awaiting final premium indications from both the American International Group as well as Chubb Insurance Company. The Fred. S. James & Co., Inc. New York office has asked for proposals from both carriers for programs involving a small retention on the low end of the policy limits by the captive. Again, this structure would lead itself to formalizing the present self-insured retention under the existing program. Initial preliminary indications reveal a potential savings of \$51,000 in the first \$10.0 million layer.

The property insurance program for the American Red Cross is currently insured through the American International Group. The program provides limits of \$20.0 million as a blanket amount for all locations with a special increased limits endorsement for those few locations where the values of the buildings and contents combined exceed the present policy limit. There is a small deductible of approximately \$2,500 applicable to each and every claim which is absorbed by the chapters and/or blood centers. The current total premium under the program is approximately \$675,000 for the period July 1, 1987-1988. Total property losses, evaluated as of the end of 1987 show incurred losses for the policy period July 1, 1987-1988 of approximately \$500,000. Only three claims since 1979 have exceed \$250,000.

Since the American International Group is the current underwriter for the property program as well as the casualty program (up until July 1, 1987, the casualty program was insured through The Travelers Insurance Company), we have requested that the American International Group provide us with various options for involving the proposed American Red Cross captive in the property program as a primary insurer in the "working layer". The "working layer" is that portion of the program which receives the most activity, since the bulk of the expected claims will fall within the range and, therefore, should be allocated a large percentage of the total program premium. The options we have requested are:

- 1) The captive reinsure the American International Group for the first \$250,000 of each and every claim, subject to annual aggregate of \$750,000 (three total losses).

- 2) Similar structure to the aforementioned, except the annual aggregate be increased to \$1.0 million (four total losses).
- 3) The proposed captive participate on a quota share basis, i.e., assume 5% of each and every loss and receive 5% of the gross premiums.

On the surface, we feel that option three would not be in the best interests of the proposed captive for the American Red Cross since the potential for loss greatly overshadows what the captive could receive in premiums. For example, should the program premium be \$700,000, the captive would receive 5% or \$35,000. The potential loss exposure would equal 5% of the policy limit of liability or \$1.0 million (5% of \$20.0 million).

Option one is currently unavailable since we were unable to obtain market indications for an annual aggregate of \$750,000. We have received preliminary indications for option two, namely a \$250,000 per loss retention, subject to an annual aggregate of \$1.0 million. The Fred. S. James Arlington, Virginia office feels that the program could be purchased for \$450,000, which is \$250,000 less expensive than the current program.

As respects California earthquake coverage, the existing sublimit under the current policy form would continue to apply under the proposed captive arrangement.

In essence, the existing policy form, terms and conditions and limits of liability would apply. The only difference would be a reinsurance agreement between the American International Group and the Red Cross captive, where the captive would assume through reinsurance an agreed amount of losses in the working layer of the program, subject to an annual aggregate. Once claims exceed either the per loss captive retention amount and/or ultimately the annual aggregate, coverage would revert back to the American International Group as pure insurance.

B: Approach to Set-up a Bermuda Captive:

As already indicated, we have recommended Bermuda as the domicile for the proposed American Red Cross captive insurance company.

There are three basic steps to the formation process:

- 1) Pre-incorporation: During this stage, an application is made to the registrar (monetary authority). The application should include the details of the business plan, as well as the feasibility study. The business plan should include such items as the proposed struc-

ture of the program, captive retention limits, reinsurance, aggregate stop loss protection (if available), etc. The feasibility study would include the loss forecast by line of business and the five-year pro-forma financial statements. This submission is usually handled through a local attorney.

- 2) Incorporation: Once the application and the business plan have been approved, the certificate of incorporation is granted by the monetary authority. This step then involves the petition to the registrar's office to commence activity as a captive insurance company.
- 3) Registration: This third and final steps grants authority by the registrar's office to the captive insurance company to commence business activity.

During the approval stage, it is necessary that a selection be made as respects banking arrangements and the CPA firm that will perform the annual financial audits. The appropriate level of capitalization should also be secured.

The time frame for a captive to be formed in Bermuda is approximately 30-60 days depending on the quality of the information submitted in the pre-incorporation stage.

COMPARISON OF CAPTIVE LAWS AND REGULATIONS

	(1) BARBADOS	(2) BERMUDA	(3) CAYMAN ISLANDS	(4) COLORADO	(5) TENNESSEE	(6) VERMONT	(7) DELAWARE
(1) CAPTIVE FORMS ALLOWED	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association	Pure and Association
(2) CORPORATE FORMS ALLOWED	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual	Stock and Mutual
(3) CAPITAL AND SURPLUS REQUIREMENTS	A license may be issued when the proposed company has a minimum paid in capital of \$250,000 or in the case of an approved mutual, minimum contributed reserves of \$250,000.	Companies under \$600,000 annual premium volume; \$120,000; 5 to 1 ratio of premium; capital and surplus to \$8,000,000; to 1 ratio thereafter.	Non-life: \$120,000 Life: \$240,000	Capital \$400,000 Surplus \$350,000 Letters of Credit permitted; issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$400,000 Surplus \$350,000 Association Captive: Capital \$600,000 Surplus \$400,000 Letters of Credit permitted; issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$100,000 Surplus \$150,000 Association Captive: Capital \$400,000 Surplus \$350,000 Industrial Insured & RRG: Capital \$200,000 Surplus \$300,000 Letters of Credit permitted issued by a national bank or a state bank approved by the commissioner.	Pure Captive: Capital \$100,000 Surplus \$150,000 Association Captive: Capital \$400,000 Surplus \$350,000 Industrial Insured & RRG: Capital \$200,000 Surplus \$300,000 Letters of Credit permitted issued by a national bank or a state bank approved by the commissioner.
(4) LINES ALLOWED TO BE WRITTEN DIRECT	All lines, but may not write Barbados sources.	All lines, but may not write Bermuda sources.	All lines, but may not write Cayman Island sources.	All commercial lines; no personal lines permitted.	Property, casualty, professional liability or errors and omissions; comprehensive general liability.	All commercial lines; except workers' comp, which must be fronted, but may be reinsured back to the captive 100%; no personal lines nor life coverages permitted.	All commercial lines; except workers' comp, which must be fronted, but may be reinsured back to the captive 100%; no personal lines nor life coverages permitted.
5) REINSURANCE	May assume and cede any reinsurance other than from Barbados sources.	May assume and cede any reinsurance other than from Bermuda sources.	May assume and cede any reinsurance other than from Cayman Island sources.	May assume only lines that can be insured directly.	May assume reinsurance only on lines permitted to write directly; may cede to Tennessee accredited reinsurers licensed in the state.	May assume any reinsurance from any source; may cede to Vermont accredited reinsurers.	May assume any reinsurance from any source; may cede to Delaware accredited reinsurers.
6) RATES AND FORMS	No approval required.	No approval required.	No approval required.	All captive insurance companies are to file with the commissioner every manner of classification, rules, and rates, every rating plan, and every modification of any of the foregoing it proposes to use. Rates by a captive insurance company shall not be excessive, inadequate, or unfairly discriminatory. All forms must be approved.	All captive insurance companies are to file with the commissioner every manner of classification, rules, and rates, every rating plan, and every modification of any of the foregoing it proposes to use. Rates by a captive insurance company shall not be excessive, inadequate, or unfairly discriminatory. All forms may require filing.	No approval required.	No approval required.
ADMITTED MARKET DEFICIENCY	No deficiency required.	No deficiency required.	No deficiency required.	Must show that adequate insurance markets in the U.S. are not available.	Must show that insurance is not available or available at excessive rates.	No deficiency required.	No deficiency required.

SFC-ARC-D000736

COMPARISON OF CAPTIVE LAWS AND REGULATIONS

	(1) BARBADOS	(2) BERMUDA	(3) CAYMAN ISLANDS	(4) COLORADO	(5) TENNESSEE	(6) VERMONT	(7) DELAWARE
(8) MINIMUM PREMIUM	No minimum premium volume required.	No minimum premium volume required.	No minimum premium volume required.	Pure Captive: \$500,000 Association Captive: \$1,000,000	Pure Captive: \$500,000 Association Captive: \$1,000,000	No minimum premium volume required. (\$2.0 million unofficially)	No minimum premium volume required.
(9) PREMIUM TAXES	No income tax, capital gains tax, or other direct tax or impost shall be levied in the Barbados.	No Bermuda tax; 4% U.S. FET on direct premiums; 1% U.S. FET on reinsurance premiums.	No Cayman Island tax; 4% U.S. FEI on direct premiums; 1% U.S. FET on reinsurance premiums.	1% on direct premiums only.	1% on direct premiums only.	0.8% on the first \$15.0 million of direct premiums, 0.6% on all direct premiums in excess of \$15.0 million, and 0.3% on the first \$15.0 million of reinsurance premiums, 0.2% on reinsurance premium in excess of \$15.0 million.	1% on Delaware risks only; none otherwise.
(10) INVESTMENT RESTRICTIONS	None	None	None	Admitted market restrictions. Captive insurance companies shall comply with the investment requirements for other insurance companies under the laws of the State of Colorado.	Must comply with admitted market requirements. A pure captive insurance company may invest in, acquire, or loan upon any security, investment, or loan with the prior approval of the commissioner. Captive insurance companies shall comply with the investment requirements for other stock casualty companies domiciled in Tenn.	An association captive insurance company shall comply with the investment market requirements. No restrictions for pure captive insurance companies except those which the commissioner may deem to threaten the solvency or liquidity of the company.	None for pure and industrial insureds, no more than 10% of total investment in any one member of an association.
(11) ANNUAL REPORTING PROCEDURES	The captive shall submit copies of its revenue account, profit and loss account, and balance sheet certified by an auditor.	Audited financial statements and disclosures.	Audited financial statements.	All captives must file a detailed annual statement.	Captives must file form prescribed by the commissioner.	Each captive insurance company shall submit to the commissioner a report of its financial condition annually. Association captives must file NAIC Blank to the commissioner. The commissioner determines the annual reporting form.	Each captive insurance company shall submit to the commissioner a report of its financial condition annually.
(12) MANDATORY MEMBERSHIPS	None Required	None Required	None Required	None Required	None Required	None Required	None Required
(13) SPECIAL NOTES	Tax treaty exists with the U.S.	Oldest 'offshore' captive domicile.	Liberal captive regulation.	First domestic captive domicile.	Neutral to captives.	Well-respected captive regulator.	Active seeking Risk Retention Groups.
(14) APPROVAL TIME	30-60 days	30-60 days	30-60 days	60-90 days	90 days	30 days	30 days

SFC-ARC-D000737

AMERICAN RED CROSS
WORKERS' COMPENSATION, AUTOMOBILE LIABILITY
AND AUTOMOBILE PHYSICAL DAMAGE

PROPOSED CAPTIVE STRUCTURE
FRONTED PROGRAM

\$5.0 MILLION

AIG EXCESS INSURANCE
\$4.0 MILLION XS \$1.0 MILLION

(WORKERS' COMPENSATION - STATUTORY LIMITS)

\$1.0 MILLION

CAPTIVE RETENTION
\$1.0 MILLION

SFC-ARC-D000738

AMERICAN RED CROSS
GENERAL LIABILITY

PROPOSED CAPTIVE STRUCTURE
CAPTIVE ISSUES POLICY DIRECT

\$5.0 MILLION

EXCESS INSURANCE LAYER
\$4.0 MILLION XS \$1.0 MILLION
100% REINSURED TO THE AIG

\$1.0 MILLION

SFC-ARC-D000739

CAPTIVE RETAINS
\$1.0 MILLION

III. Financial Comparison

We have run pro-forma financial statements for each of the scenarios mentioned under the casualty program. In addition, we have looked at several possible domiciles for each of the possible captive structures.

Using the loss estimates provided in the Loss Forecast prepared by the Risk Management Consulting Group of Fred. S. James & Co., Inc., we have analyzed the financial performance of the proposed captive structure. The loss estimates as defined at a \$1.0 million retention and at the expected (50%) confidence level are as follows:

----- Line of Business -----	----- Loss Estimate -----
Workers' Compensation	\$ 3,665,392
General Liability	\$ 1,592,840
Automobile Liability	\$ 2,636,972
Automobile Physical Damage	\$ 733,741
Total	\$ 8,628,945 =====

The basis of our analysis are the five-year pro-forma financial statements. In addition to the loss estimates, the following assumptions have been made:

----- Variable Expenses (% of Premium): -----

State Premium Taxes (weighted average percentages)

5.0%	general liability
5.0%	automobile liability
5.0%	automobile physical damage
8.334%	workers' compensation

Claims Handling

5.07% = \$589,000

Front Fees (Basic Charge)

4.67% = \$540,000

James

Fixed Expenses:

Captive Management	\$ 40,000
Legal/Audit/Accounting	\$ 20,000
Annual Company Fee	\$ 5,000
Charges for Banking Services Letters of Credit (L.O.C.)	3/8 of 1% against underwriting reserves
Travel, Hotel, etc.	\$ 20,000
Total Fixed Expenses	\$ 85,000 plus L.O.C.'s

The investment income rate for the financial model is 6%. This is a conservative figure, yet representative of current market rates for short-term instruments.

The reinsurance charge as quoted by the American International Group is \$1,326,000. This is equal to 11.4% of the gross written premiums. This charge reflects the premium cost for the excess layer above the captive's retention. As previously mentioned, the captive will reinsure the American International Group for the first \$1.0 million of each and every loss. The American International will provide \$4.0 million excess of the captive's \$1.0 million retention. Therefore, the total policy limit will be \$5.0 million.

From the loss forecast performed by the Risk Management Consulting Group for the casualty exposures, we have applied the following claim reporting and payout patterns to our financial model (expressed as weighted average cumulative amounts):

	Fiscal Years				
	1988	1989	1990	1991	1992
Reporting Pattern	65%	81%	90%	95%	96%
Payout Pattern	34%	53%	63%	73%	81%



The detailed results of the pro-forma financial statements are shown at the end of this section. The following is a brief summary:

(\$000)	Fiscal Years				
	1988	1989	1990	1991	1992
Gross Premiums	11,557	11,557	11,557	11,557	11,557
Net Premium to the Captive	8,629	8,629	8,629	8,629	8,629
Captive Underwriting Profit	151	416	636	820	969
Profit Allocated to Initial Capital	150	314	333	353	374
Retained Earnings	195	803	1,638	2,668	3,863

As you will note, we have not adjusted the premiums for growth in exposure nor inflation factors.

We envision the flow of premium dollars from the American Red Cross National Headquarters to the captive as per the exhibit on the following page.

In addition, the following schedule will compare the proposed captive program costs with the costs under the exiting insurance arrangements.

19-Jan-88

AMERICAN RED CROSS
 FRONTED CASUALTY PROGRAM FOR
 A.L., A.Phy.D., W.C. - G.L. DIRECT
 BERMUDA DOMICILE

	(000)				
	1988	1989	1990	1991	1992
Total Premiums	\$11,557	\$11,557	\$11,557	\$11,557	\$11,557
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	473	473	473	473	473
Other Program Expenses (Front Fee)	540	540	540	540	540
Claims Handling	589	589	589	589	589
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$1,602	\$1,602	\$1,602	\$1,602	\$1,602
Excess Reinsurance Premiums	1,326	1,326	1,326	1,326	1,326
Net Premiums Available to Pay Losses	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	8,629	8,629	8,629	8,629	8,629

SFC-ARC-D000743

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE

INCOME STATEMENT

(000)

	1988	1989	1990	1991	1992
Premiums Booked	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,934	4,573	5,436	6,299	6,989
Change in Unpaid Claims Reserve	2,675	2,416	2,330	1,898	1,294
Change in IBNR Reserve	3,020	1,640	863	431	345
Total Losses Incurred - Net of Reins. Recov.	\$8,629	\$8,629	\$8,629	\$8,629	\$8,629
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	151	416	636	820	969
Total Profit Attributed to Underwriting	\$151	\$416	\$636	\$820	\$969
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	21	37	49	57	63
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	106	122	134	142	148
Net Profit Attributed to Captive	\$45	\$294	\$502	\$677	\$820
Investment Profits Allocated to Initial Capital	\$150	\$314	\$333	\$353	\$374
Net Profit before Federal Income Taxes	195	608	835	1,030	1,195
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	195	608	835	1,030	1,195
Stockholder Dividends Declared					
Change in Retained Earnings	\$195	\$608	\$835	\$1,030	\$1,195
Retained Earnings:					
Beginning of Year	0	195	803	1,638	2,668
End of Year	195	803	1,638	2,668	3,863

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE

BALANCE SHEET

(000)

	1988	1989	1990	1991	1992
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$207	\$147	\$188	\$221	\$248
Certificates of Deposit	9,018	12,837	16,185	18,955	21,298
Bonds and Other Investments	1,025	1,442	1,819	2,130	2,393
	-----	-----	-----	-----	-----
Total Cash and Other Investments	\$10,250	\$14,427	\$18,191	\$21,306	\$23,940
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	489	762	906	1,050	1,165
Note Receivables	5,000	5,000	5,000	5,000	5,000
Other Receivables	151	365	484	586	672
	-----	-----	-----	-----	-----
Total Other Assets	\$5,640	\$6,127	\$6,390	\$6,636	\$6,837
	-----	-----	-----	-----	-----
Total Assets	\$15,890	\$20,554	\$24,581	\$27,942	\$30,776
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,675	\$5,091	\$7,421	\$9,319	\$10,614
Reserve for IBNR	3,020	4,660	5,523	5,954	6,299
	-----	-----	-----	-----	-----
Total Loss Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Reserve for Unearned Premiums	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Underwriting Reserves	\$5,695	\$9,751	\$12,944	\$15,273	\$16,913
Other Payables					
	0	0	0	0	0
	-----	-----	-----	-----	-----
Total Liabilities	5,695	9,751	12,944	15,273	16,913
Shareholders' Equity					
Retained Earnings	195	803	1,638	2,668	3,863
Cash Capital	5,000	5,000	5,000	5,000	5,000
Non-Cash Capital	5,000	5,000	5,000	5,000	5,000
	-----	-----	-----	-----	-----
Total Equity	\$10,195	\$10,803	\$11,638	\$12,668	\$13,863
	-----	-----	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$15,890	\$20,554	\$24,581	\$27,942	\$30,776
	-----	-----	-----	-----	-----

AMERICAN RED CROSS
FRONTED CASUALTY PROGRAM FOR
A.L., A.Phy.D., W.C. - G.L. DIRECT
BERMUDA DOMICILE

CASH FLOW STATEMENT

(000)

	1988	1989	1990	1991	1992
	----	----	----	----	----
Net Premiums Ceded to Captive	8,629	8,629	8,629	8,629	8,629
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	8,629	8,629	8,629	8,629	8,629
Funds Retained by Ceding Company (Chg in Escr	489	273	144	144	115
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	8,140	8,356	8,485	8,485	8,514
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,934	4,573	5,436	6,299	6,989
Total Payments	2,934	4,573	5,436	6,299	6,989
Net Cashflows from Underwriting	5,206	3,782	3,049	2,186	1,524
Invest Income Received	151	515	849	1,071	1,258
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	21	37	49	57	63
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	106	122	134	142	148
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	5,250	4,176	3,764	3,114	2,634
Capital Paid In	0	0	0	0	0
Total Funds Provided	5,250	4,176	3,764	3,114	2,634
Application of Funds:					
Purchase of Investments	5,143	4,236	3,724	3,082	2,606
Stockholder Dividends Paid					
Total Funds Applied	5,143	4,236	3,724	3,082	2,606
Change in Cash Position	107	(60)	41	33	28
Cash: Beginning of Period	100	207	147	188	221
End of Period	207	147	188	221	248

AMERICAN RED CROSS

↓ ↓ ↓
PREMIUM

=====

↓

FRED. S. JAMES & CO. INC.
ARLINGTON, VIRGINIA

POLICY ISSUANCE
CERTIFICATES
ETC.

LESS EXPENSES

- (BROKERAGE/CONSULTING
- (LOSS CONTROL
- (PREM. TAXES & ASSESSM'TS
- (CLAIMS HANDLING
- (UNDERWRITING/ADMIN.

- (REINS. (SPECIFIC)

(EXPENSES)

↓

PREMIUM CEDED
TO CAPTIVE

=====

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AMERICAN RED CROSS
CAPTIVE

LESS OPER. EXP.

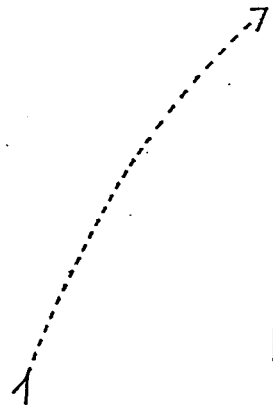
- (CAPTIVE MGMT.
- (LEGAL/AUDIT
- (GOVT FEE
- (BANKING FEES
- (MISC. (TRAVEL, HOTELS, MTGS)

(EXPENSES)

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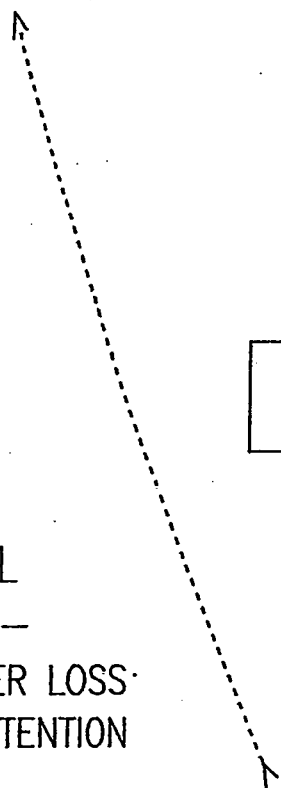
NET FOR LOSSES
IN CAPTIVE LAYER

STOCK OR POLICY
DIVIDENDS
VIA UNDERWRITING
& INVESTMENT INCOME



CAPITAL

10 X PER LOSS
RETENTION



AMERICAN RED CROSS
CAPTIVE PROPOSAL
COMPARISON OF EXPENSES

EXPENSES	(1) CURRENT PROGRAM	(2) BERMUDA CAPTIVE	(3) DIFFERENCE (COL 1-COL 2)
CASUALTY:			
Losses within program	\$8,629,000	\$8,629,000	\$0
Losses subject to S.I.R	\$0	\$0	\$0
State Premium Taxes:			
Auto Liability	\$0	\$131,849	(\$131,849)
Auto Phy.D.	\$0	\$36,687	(\$36,687)
General Liability	\$0	\$0	\$0
Workers' Compensation	\$305,474	\$305,474	\$0
Total State Tax	\$305,474	\$474,010	(\$168,536)
Basic/Front Charges	\$700,000	\$540,000	\$160,000
Claims Handling	\$589,000	\$589,000	\$0
Reinsurance Charges	\$1,326,000	\$1,326,000	\$0
Federal Excise Taxes	\$0	\$0	\$0
Other Premium Tax	\$0	\$0	\$0
LOC/Bank Charges	\$21,000	\$21,000	\$0
Legal, Accounting, etc.	\$0	\$20,000	(\$20,000)
Management Fees	\$0	\$40,000	(\$40,000)
Misc. Charges	\$0	\$25,000	(\$25,000)
Total Casualty	\$11,570,474	\$11,664,010	(\$93,536)
Property Premium	\$700,000	\$450,000	\$250,000
D&O Premium *	\$205,000	\$154,000	\$51,000
Total Premium	\$12,475,474	\$12,268,010	\$207,464

* The premium is based upon a \$10.0 million limit of liability subject to a \$250,000 deductible (\$500,000 for wrongful termination) under the current program. For the captive proposal, the same \$10.0 million limit of liability applies, however, the deductible applicable would be \$1.0 million.

IV. Long Term Considerations

The existence of the captive insurance company has significantly changed the methodology surrounding risk management. Major reasons for forming captive insurance companies include the lack of a stable traditional insurance marketplace, unavailability of certain necessary coverages pertaining to difficult lines of business, unacceptable pricing, unacceptable underwriting terms and conditions and the general lack of control an insured is faced with over his insurance program. The captive insurance company basically provides a new source of supply and permits the formalization of self-retention schemes. Captives offer their parent organizations ways to maximize their cash flow and accumulate underwriting and investment income profits.

We have recommended the formation of the American Red Cross captive. The captive structure would be as a reinsurer of the American International Group for property and casualty lines of business with the exception of the general liability, which would be written on a direct basis. In addition, we have recommended a very conservative capital base equal to ten times the per loss retention amount (ten times \$1.0 million or \$10.0 million). The premiums payable under the captive program are based upon the expected losses as defined by the Risk Management Consulting Group and the program expenses as defined by the American International Group.

There are several long-term considerations available to the American Red Cross once the captive has been formed and a strong financial base has been achieved. However, the overriding force to all potential avenues must be the dedication by the American Red Cross to the solvency of the program and to allow the captive provide a long-term stable insurance alternative to the traditional insurance marketplace.

As the financial base of the captive strengthens, the American Red Cross might want to pursue some of the following options:

- 1) Gradually increase the per loss retention amounts and thereby lessen the dependency on the excess reinsurance. A greater percentage of the program premium would then be retained by the captive.
- 2) Consider expanding the captive to provide coverage for similar or related industries, such as the March of Dimes or the Cancer Fund. This would require the services of a well-experienced underwriter who could knowledgeably determine and evaluate the exposures. We would recommend caution on this topic.

- 3) Provide coverage on a direct basis for those exposures which the traditional market views as potential problems, such as AIDS. As previously mentioned, this could involve formalizing whatever self-retention schemes that currently may be in effect.

V: Formal Recommendation and Implementation

This report has recommended the formation of a Bermuda based captive for The American Red Cross to insure its fire and allied perils insurance, general and automobile liability, automobile physical damage and directors and officers liability insurance.

The main advantages we foresee for The American Red Cross are: (1) increasing and maximizing cash flow since the captive would obtain control over claims reserves; necessary services such as claims handling and loss control could be unbundled and purchased individually and, the overhead expenses of the traditional insurers could be eliminated; (2) coverage could be provided for presently uninsurable exposures, such as AIDS and incidental pollution exposures; (3) cost savings directly affecting premiums and control of investment income on underwriting activities as well as investment income on capitalization; and (4) flexibility as to what is insured and on what terms and conditions. Coverage can be extended to difficult areas and to possibly insure third parties with similar or related exposures.

The key to a successful captive program is a strong commitment by the members to the program, to insure that this alternative risk financing method becomes a sound, long-term venture. The parent organization must be dedicated to the continuance of the project and stay with the program despite short-term fluctuations of the cost and availability of coverage in the traditional market.

We recommend that authorization be given and permission be granted by the Board of Governors of The American Red Cross to form a captive insurance company.

James

AMERICAN RED CROSS

PRELIMINARY CAPTIVE/RENT-A-CAPTIVE ANALYSIS

PRIMARY CASUALTY INSURANCE PROGRAM

Bill Moll 201-564-7451
Pick Wright 201-564-1200

Presented by:

Fred. S. James & Co. Inc.
Captive Development & Planning Division
830 Morris Turnpike
Short Hills, NJ 07078

May, 1987

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I. INTRODUCTION

The American Red Cross (ARC) currently purchases its primary casualty insurance coverage (Auto Liability, Auto Physical Damage, General Liability, and Workers' Compensation) from the Travelers Insurance Company. The policy structure is known as a Paid Loss Retro, converting to an Incurred Loss Retro at the fifth retrospective adjustment. It allows for significant cash flow benefits while providing catastrophic protection on specific excess losses.

Due to recent developments involving the ARC exposures (e.g. AIDS, donor procurement, etc.) and the insurance market in general, certain key coverages have been excluded from the program; it is expected that further coverage restrictions will be sought by the Travelers on renewal at 7/1/87. The control over the ARC program continues to be with the insurance carrier rather than the ARC.

In response to this loss of control, the ARC is exploring alternatives to the current program which may allow for greater input on specific issues such as policy form, coverages types, pricing, claims management, etc. The captive insurance company concept very often fits well with this objective (i.e. increasing the insured's control over the program) and so, the ARC has requested James to prepare this preliminary look at the captive idea.

The first section of this report compares the current structure written by the Travelers to a "fronted" reinsurance captive structure. We also explore the use of a fronted "rent-a-captive". Both fronted programs are based on the exposures currently insured by Travelers (i.e. excludes AIDS, pollution, asbestos, etc). The funding amounts used are based on the February 17, 1987 report to the ARC by the Risk Management Consulting Group of Fred. S. James & Co., Inc.

The next portion of the report deals with the current uninsurable risks including AIDS related claims, organ procurement, discrimination, pollution, etc. - any risks currently excluded from the Travelers program but where the ARC has exposure to loss. The captive approach here is simply a formalization of a funding program. Given the nature of the risks and the lack of statistically sound loss data, the funding level was not determined by any scientific method but rather it is an assumed amount meant to demonstrate how a captive/rent-a-captive can handle the "uninsurable" loss fund.

This report is preliminary in the sense that we would encourage feedback from the ARC management as well as Tillinghast, who has been contacted to review this project. Given the active involvement of all parties, we will be able to focus and fine tune the direction of the report to properly address the needs and long-term goals of the ARC.

II. OVERVIEW

There are many reasons why captive insurance companies have formed over the years, but the four basic issues driving the current captive interest are: Coverage, Control, Cost, and Cash Flow. The current paid loss retro program written by The Travelers Insurance Company addresses the last two items fairly well - Cost and Cash Flow. From a pure financial perspective the current program compares favorably to a fronted captive program covering the same exposures. Under both programs, overall cost is basically a function of incurred losses and cash flow is generally a function of paid losses. The captive will incur some operating expenses for captive management, legal and audit functions, local government fees, etc. that are not required under the current program. So, assuming the ARC can invest unpaid claims in a similar manner as the captive, the captive should be a bit more expensive to operate than a paid loss retro.

As is evident from recent developments within the Travelers program, the insured paid loss retro does not provide all the necessary coverages to the ARC, which reveals the greater underlying problem - the Travelers Insurance Company (not the ARC) has almost total control over the ARC insurance program. This is because the Travelers is "on the risk" at a relatively low level (\$250,000 on W.C. and G.L., \$500,000 on A.L.) given the exposures and size of the ARC. To the extent the ARC can increase its retention of loss significantly, it can gain greater control over the program.

A captive appears to be a cost-effective method of formally retaining more risk. It also provides benefits that are difficult (if not impossible) to quantify, such as the ability to evidence "insurance" to vendors and/or subsidiaries by way of policies and certificates, direct access to reinsurance markets, and a formalized mechanism to account for the self-insurance performance (i.e. quarterly financial statements, a separate management structure, periodic Board of Directors meetings, etc.).

James

An alternative to a wholly owned captive company is the rent-a-captive concept. We have looked closely at a relatively new facility known as Richmond Insurance Co. in Barbados. Richmond is partly owned by the AIG and Munich Re among others. It essentially acts like a captive but charges fees to "rent" its capital and surplus to allow the formalized funding of self insured risks. Generally, the rent-a-captive is more expensive than a pure captive and the insured loses some control (the rental facility invests the funds on the insured's behalf, determines dividend policy, etc). On the positive side, the insured does not need to capitalize a new subsidiary, and since Richmond is in place and doing business, the rent-a-captive idea can be implemented immediately.

Using the loss forecast provided in the 2/17/87 report of the James Risk Management Consulting Group, we estimated the structure of a renewal program under a paid loss retro, a fronted captive program, and a fronted program using Richmond as the funding vehicle. The key assumptions are shown here:

(See following page)

James

	Travelers Paid Loss Retro (000)	AIG to Captive (000)	AIG to Richmond (000)
Est. Loss Inc.	\$ 7,847	\$ 7,847	\$ 7,847
Total Premium	11,782	11,889	11,889 ✓
Prem taxes, asses.	330	713	713 -
Profit & Admin.	1,001	951	951 ✓
Claims Handling	683	594	594 ✓
Reinsurance	<u>1,920</u>	<u>1,783</u>	<u>1,783 ✓</u>
Total Expense	\$ 3,934	\$ 4,041	\$ 4,041

Year 1

Paid Premium	\$ 5,439	\$11,889	\$11,889
Capital	-	2,500 - 1,250 Cash	-
L.O.C.	6,400	-	1,250 LOC
Oper. Expense	-	104	221
	<u>11,839</u>	<u>14,493</u>	<u>12,110</u>

We ran five-year pro-forma financial projections for both the captive (Scenario 1) and the rent-a-captive (Scenario 2) and can demonstrate their relative performance by comparing the retained earnings growth:

Retained Earnings (000)	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
Captive (Sc. 1)	\$ 71	\$413	\$950	\$1,651	\$2,488
Richmond (Sc.2)	(121)	(78)	94	372	731

JAMES

The captive is clearly the better performer given the lower operating expense and the higher yield on investment (part of Richmond's fee is 150 basis points on the investment yield).

We then considered increasing the captive retention from \$250,000 to \$1,000,000 per occurrence. For demonstration purposes (and because the loss forecast was limited to \$250,000 per occurrence), we simply let the reinsurance premium go to the captive and assumed no losses in the excess layer. The retained earnings growth then reflects how large the fund will grow each year to fund for any excess losses:

Retained Earnings (000)	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
No Reinsurance					
No Excess Losses					
Captive (Sc.3)	\$1,908	\$4,196	\$6,796	\$9,682	\$12,834
Richmond (Sc.4)	1,665	3,574	5,697	8,011	10,497

Finally, we addressed the uninsurable lines of business and observed how both the captive and rent-a-captive approach might work. Again, as we have no basis to determine funding levels, we made some basic assumptions, i.e. the captive or Richmond would issue a \$5 million per occurrence/annual aggregate policy and with a combination of premium, capital, and/or letters of credit, the limit would be fully funded by the ARC.

With no losses, the earnings in the two respective vehicles look like this:

Retained Earnings (000)	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
Captive (Sc.5A)	\$3,017	\$6,229	\$9,633	\$13,239	\$17,060
Richmond (Sc. 6A)	2,975	6,083	9,330	12,722	16,266

James

Assuming a \$1,000,000 incurred loss in each year, the earnings drop to this:

	<i>One loss = 1,000, 1,000, 1,000, 1,000, 1,000</i>				
Retained Earnings (000)	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
Captive (Sc. 5B)	\$2,015	\$4,217	\$6,598	\$9,158	\$11,896
Richmond (Sc. 6B)	1,973	4,074	6,304	8,662	11,144

Assuming a \$1,000,000 loss in years 1, 2, 4, and 5 along with a policy limit loss of \$5,000,000 in year 3, the performance is:

	<i>One loss = 1,000, 1,000, 5,000, 1,000, 1,000</i>				
Retained Earnings (000)	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>
Captive (Sc. 5C)	\$2,015	\$4,217	\$2,588	\$5,120	\$7,804
Richmond (Sc. 6C)	1,973	4,074	2,297	4,633	7,076

5,000,000 Policy Limit

Range of RE Limit at end of 5 year period

	<i>No Excess losses</i>	<i>5 \$1KK losses</i>	<i>4 \$1KK losses 1 \$5KK loss</i>
<i>Captive :</i>	<i>\$ 17,060,000</i>	<i>\$ 11,896,000</i>	<i>\$ 7,804,000</i>
<i>Richmond :</i>	<i>16,266,000</i>	<i>11,144,000</i>	<i>7,076,000</i>

III. ANALYSIS

The first step of our analysis centers on the current paid loss retro and how it compares to a captive and rent-a-captive approach - Exhibit 1 breaks out the current Travelers program and then restates the loss and expense amounts in a more basic format, i.e. gross premium less expenses yielding a net amount for losses. Using the same factors applied to the updated loss forecast, we estimate the dollar amounts for the 7/1/87-88 policy period. Exhibit 2 is a graphic outline of the current structure.

Under the captive structure, we suggest funding for the expected loss up front and allowing the captive to realize the cash flow benefits. Again, using the \$7,847,000 loss forecast, we have estimated the necessary expenses to develop a gross premium which will fund for the expected loss. Given this premium, we have constructed various sets of five year pro-forma financial statements to quantify the results of both the captive and rent-a-captive vehicles. Exhibit 3 is a graphic representation of the captive structure comparable to the Travelers program. In the pro-forma section of the Appendix, Scenario 1 is the captive approach to the current insured program. Scenario 2 is the Richmond rent-a-captive approach to the current program. These two scenarios correspond to the structure shown in Exhibit 3. Scenarios 3 and 4 are the captive and Richmond versions of the current program if the reinsurance premium went directly to the funding vehicle and there were no losses in the excess layer (\$750 XS \$250). Graphs No. 1 and 2 compare the retained earnings of the captive and Richmond under both structures (Graph No.1 compares Scenario 1 vs 2; Graph No.2 compares Scenario 3 vs 4).

Exhibit 4 shows the "structure" of the uninsurable coverages under a captive or rent-a-captive vehicle. We envision a Barbados captive or Richmond issuing a \$5 million occurrence/aggregate policy directly to ARC. The premium assumed

here is \$3 million which when combined with a \$2 million letter of credit, will provide a fully funded vehicle. These amounts are fairly arbitrary - if the ARC wished to create a larger facility, it could simply add additional funds or L.O.C's. This is not insurance in the normal sense but rather a funding vehicle to formally handle those exposures which are currently uninsurable.

In the pro-formae, Scenario 5 represents the captive approach while Scenario 6 is the Richmond approach to this funding idea. Scenarios 5A and 6A assume no losses; 5B and 6B assume \$1,000,000 of incurred losses each year; 5C and 6C assume a policy limit loss of \$5,000,000 in the third year and \$1,000,000 in losses in each of the other four years. Graph No. 3 compares the retained earnings in the captive for the three different loss assumptions. Graph No. 4 does this under the Richmond structure. Graph No. 5 compares the captive to Richmond using the \$1,000,000 annual loss assumption.

IV. SUMMARY & RECOMMENDATIONS

The current Paid Loss Retro program written by The Travelers Insurance company works fairly well from a financial perspective. Cash flow benefits to the ARC are similar to those under a captive or rent-a-captive structure in that some expenses are paid up front with "premiums" being paid when losses are paid. This feature changes in the fifth year, when the program converts to an Incurred Loss Retro and the cash flow benefits essentially disappear. In addition, the Paid Loss Retro has lower expenses than a fronted captive program as the captive incurs operating expenses such as captive management, local, legal, audit, and government fees.

Unfortunately, the current program excludes certain key coverages and demonstrates a lack of control over the program by the ARC.

A wholly owned captive insurance facility out-performs a rent-a-captive (Richmond) due to its lower expenses and higher yield on investments (this assumes the captive and Richmond can invest funds identically, and Richmond takes 150 basis points as part of its fee). The captive though, requires a significant capital base and time to prepare a business plan/feasibility study, filing documents, etc. A rent-a-captive program could be put into place by 7/1/87; a pure captive probably could not be functional by that date. *

To further pursue these ideas, we recommend that the ARC allow James to obtain quotes for a) a paid loss retro policy for lines of business where a licensed carrier is necessary (e.g. Workers' Compensation, Auto Liability, and General Liability exposures where ARC vendors, clients, or statutory requirements dictate licensed paper), from the Travelers, AIG, and any other carrier that may be interested; and b) a fronted program using Richmond as the funding vehicle, probably from AIG, for these coverages needing a front carrier. Then a more formal comparison of these two options can be performed.

What are we waiting for? They have all the permissions

James

In addition, we recommend the use of Richmond Insurance Company to fund the "uninsurable" lines of business plus any coverages not requiring a licensed U.S. carrier. The policies would be issued directly from Barbados and would not be subject to Federal Excise Tax or any state premium taxes. The ARC should then consider forming its own captive and switching from the Richmond facility once it is in place - perhaps at the first renewal. A formal quote from Richmond can be obtained fairly quickly and the program could be in place by 7/1/87.

James looks forward to discussing these ideas directly with the ARC. We are prepared to answer any questions and/or comment on any feedback from both the ARC and Tillinghast.

Exhibit 1
AMERICAN RED CROSS

Pricing of Current Primary Program
with The Travelers Insurance Company
7/1/86 - 7/1/87

Basic (taxed)	914,558	Paid Loss Retro
Assessments	60,193	Unlimited maximum
Reinsurance	1,754,477	(i.e. no agg. stop)
Claims Handling (LCF times loss estimate)	624,294	1st year payments
Taxes (on converted WC losses)	242,904	12 month of 414,050 each
Loss Estimate	7,166,812	= \$4,968,607
		plus L.O.C of \$5,800,000
		converts to incurred loss retro on 5th adjustment 12/31/92

	<u>7/1/86-87</u> <u>Policy Period</u>		<u>Est. 1987</u> <u>Policy Period</u>	
Total Premium	\$10,763,238		\$11,782,000	
Brokerage/Cons.	-	0		
Loss Control	-	0		
Prem taxes & assess	303,097	2.8%	330,000	
Profit & Admin	914,558	8.5%	1,001,000	
Claims Handling	624,294	5.8%	683,000	
Reinsurance	1,754,477	16.3%	1,920,000	
Total Expenses	3,596,426	33.4%	3,934,000	33.4
Net for Losses	7,166,812	66.6%	7,847,000	66.6
			1st Yr Payments = 5,439,000	
			L.O.C. = 6,400,000	

AMERICAN RED CROSS

STRUCTURE OF CURRENT PRIMARY PROGRAM WITH THE TRAVELERS INSURANCE COMPANY

7/1/86-7/1/87

13

SFC-ARC-D000766

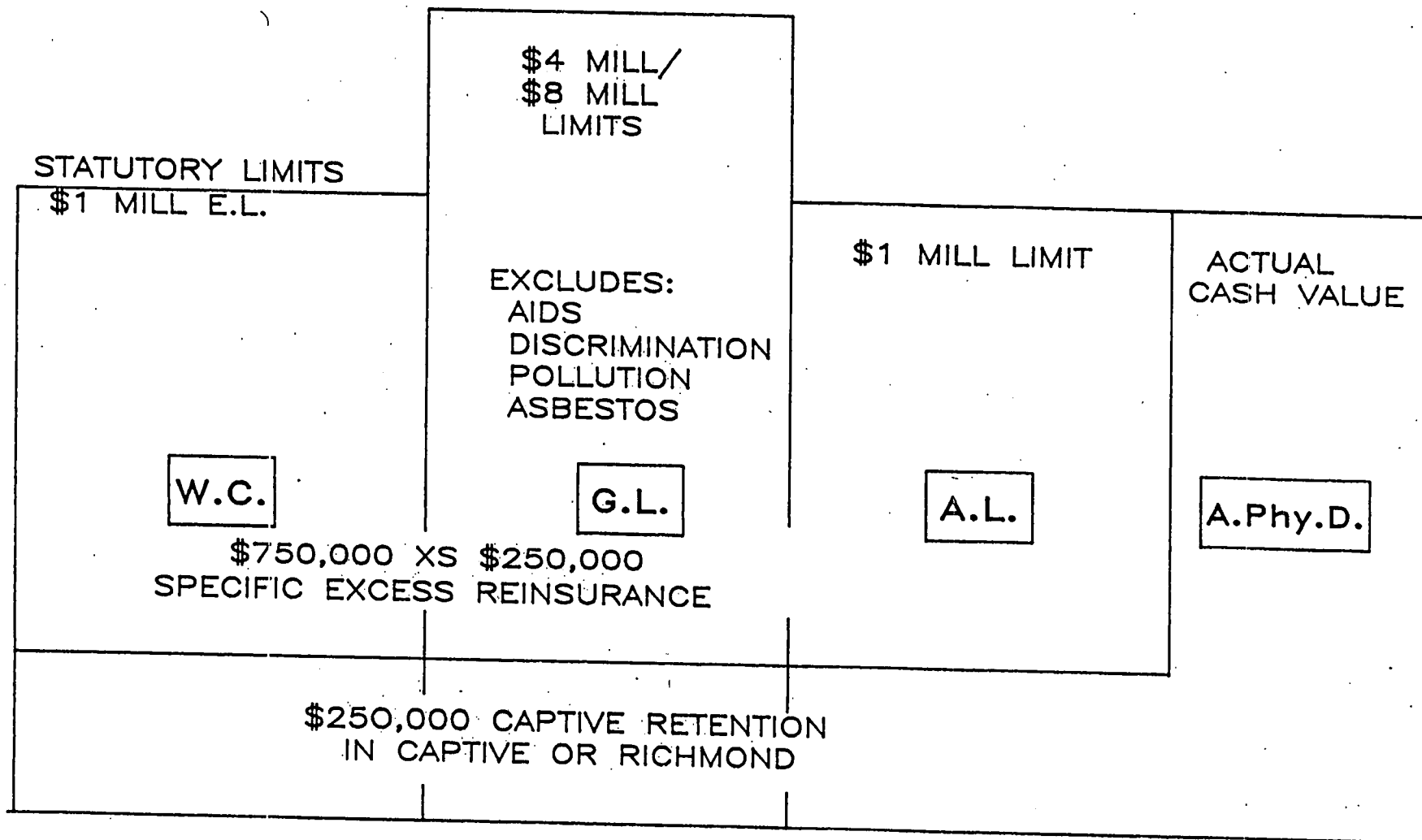
STATUTORY LIMITS \$1 MILL E.L.		\$4 MILL/ \$8 MILL LIMITS	
W.C.	EXCLUDES: AIDS DISCRIMINATION POLLUTION ASBESTOS G.L.	\$1 MILL LIMIT A.L.	ACTUAL CASH VALUE A.Phy.D.
\$250,000 RETRO	\$250,000 DEDUCTIBLE + A.L.E.	\$500,000 DEDUCTIBLE + A.L.E.	\$500,000 DEDUCTIBLE + A.L.E.
		\$250 DED. (INTERNAL)	

*Wrong
has
deductible*

AMERICAN RED CROSS

STRUCTURE OF CAPTIVE ALTERNATIVE

7/1/87 - 7/1/88

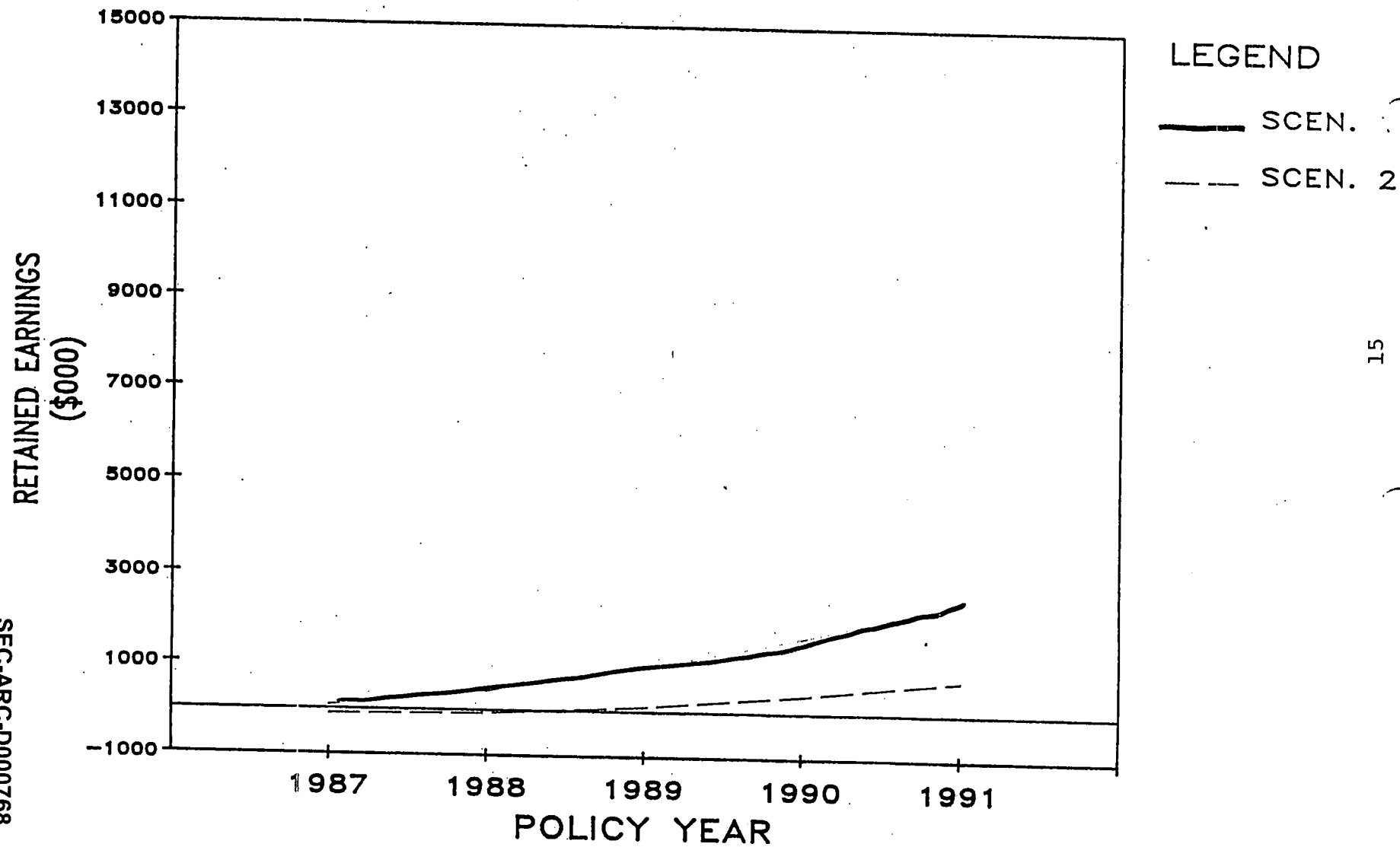


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SFC-ARC-D000767

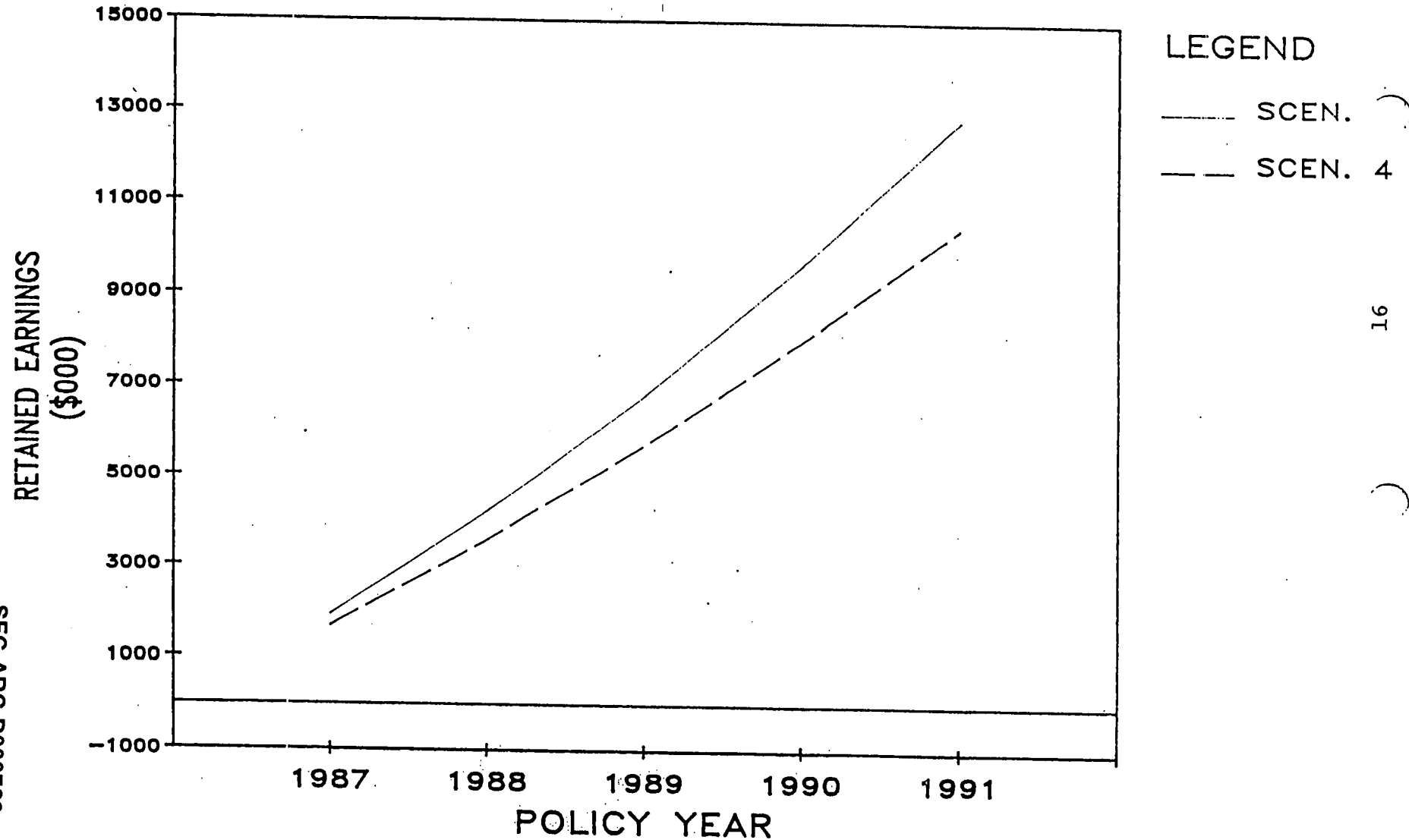
Exhibit 3

AMERICAN RED CROSS COMPARISON OF SCENARIOS 1 & 2 CAPTIVE VS. RENT-A-CAPTIVE



SFC-ARC-D000768

AMERICAN RED CROSS COMPARISON OF SCENARIOS 3 & 4 CAPTIVE VS. RENT-A-CAPTIVE



SFC-ARC-D000769

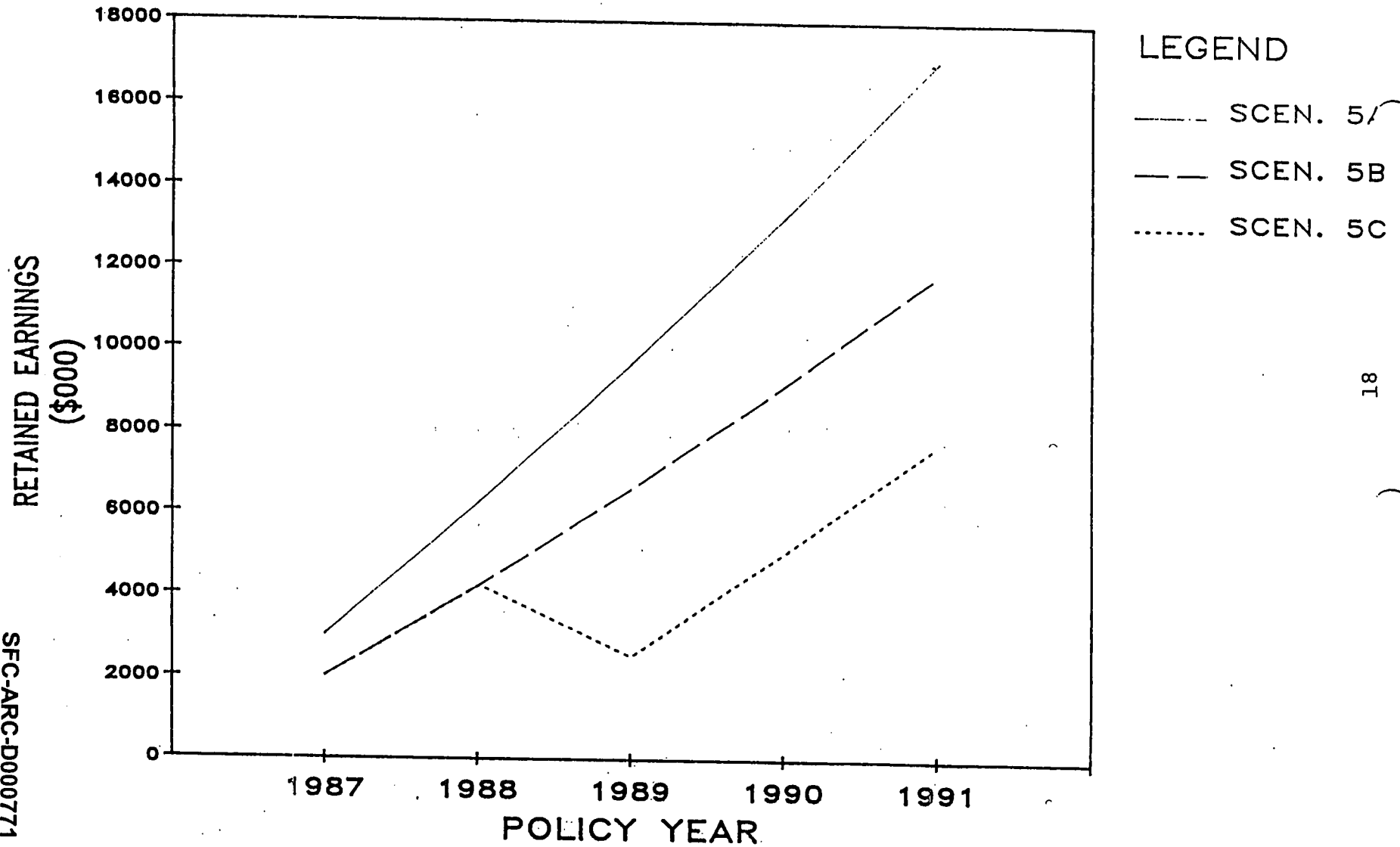
AMERICAN RED CROSS
STRUCTURE OF CAPTIVE ALTERNATIVE
FOR "UNINSURABLE" COVERAGES

\$5 MILLION PER OCCURRENCE & AGGREGATE LIMIT
INCLUDING A.L.E.

COVERAGE FOR: AIDS
DISCRIMINATION
POLLUTION
ASBESTOS
ETC.

FULLY FUNDED BY COMBINATION OF PREMIUM & L.O.C.

AMERICAN RED CROSS CAPTIVE LOSS SCENARIOS COMPARISON OF SCENARIOS 5A, 5B, & 5C



LEGEND

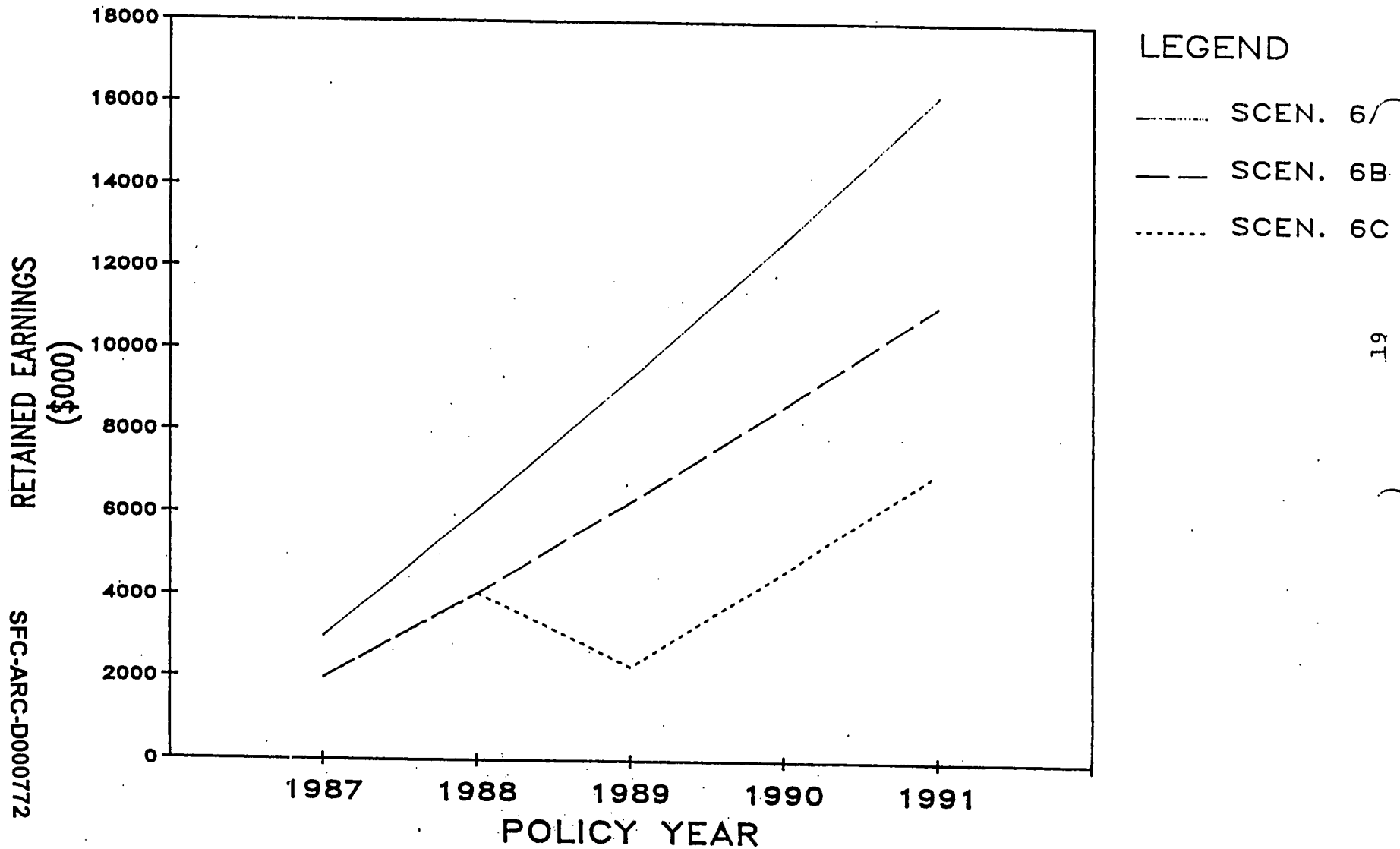
- SCEN. 5A
- - SCEN. 5B
- SCEN. 5C

RETAINED EARNINGS
(\$000)

SFC-ARC-D000771

1987 1988 1989 1990 1991
POLICY YEAR

AMERICAN RED CROSS CAPTIVE LOSS SCENARIOS COMPARISON OF SCENARIOS 6A, 6B, & 6C



LEGEND

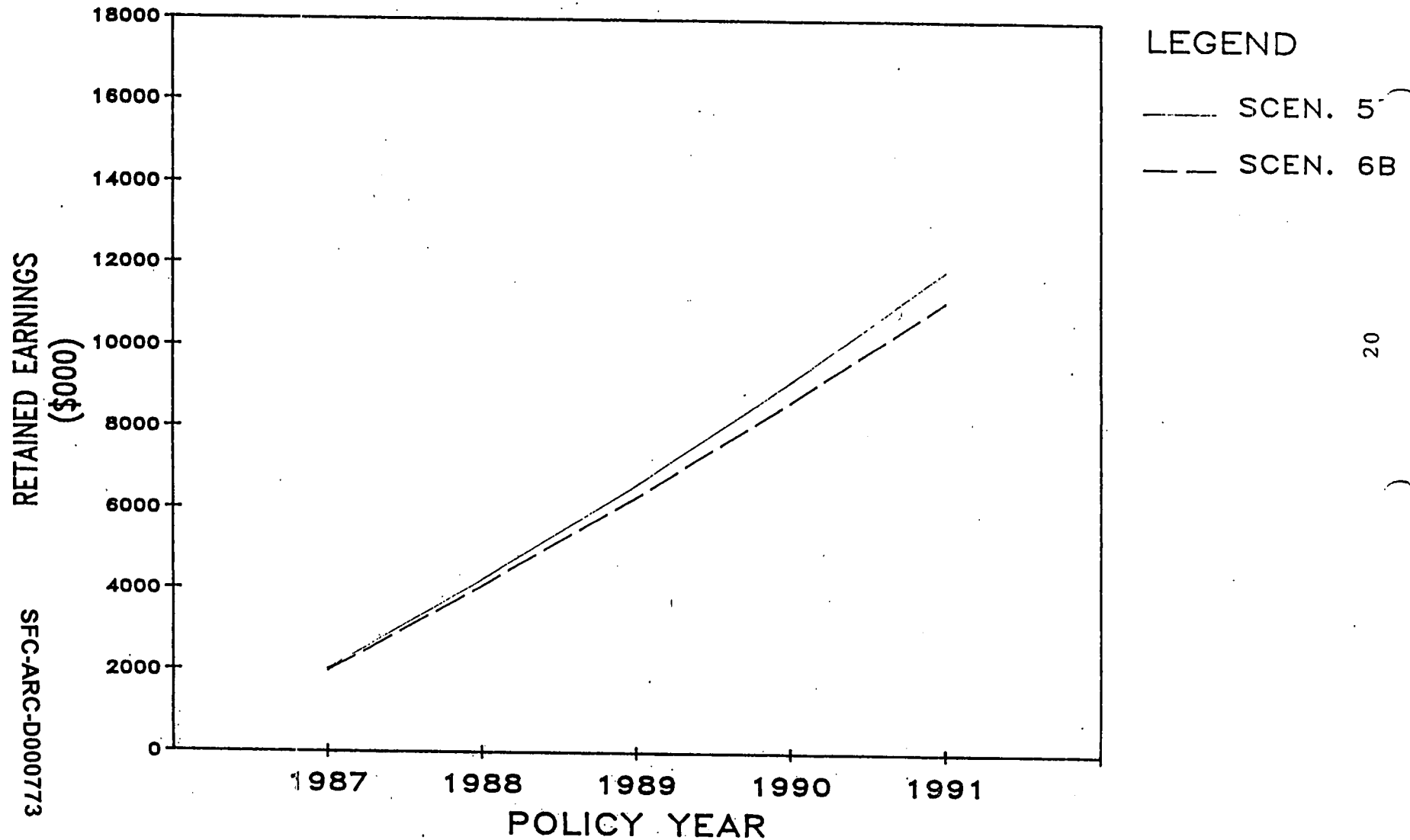
- SCEN. 6A
- SCEN. 6B
- SCEN. 6C

RETAINED EARNINGS (\$000)

SFC-ARC-D000772

1987 1988 1989 1990 1991
POLICY YEAR

AMERICAN RED CROSS COMPARISON OF SCENARIOS 5B & 6B CAPTIVE VS. RENT-A-CAPTIVE



RETAINED EARNINGS (\$000)

SFC-ARC-D000773

20

V. APPENDIX

PRO-FORMA FINANCIAL STATEMENTS

AMERICAN RED CROSS

Assumptions

Scenario 1 - Captive

A. Policy Coverages and Limits

1. Workers' Compensation - Statutory
2. Employers Liability - \$1 million per occurrence
3. Auto Liability - \$1 million per occurrence
4. Auto Physical Damage - Actual Cash Value
5. General Liability - \$4 million per occurrence/
\$8 million aggregate
6. Captive Retention - \$250,000 per occurrence
for each line of coverage

B. Program Cost Factors

1. Premium Taxes and Assessments 6%
2. Front Fee 8%
3. Claims Handling 5%
4. Excess Reinsurance. 15%
5. Captive Operating Expenses. \$85,000
plus L.O.C
charges

C. Losses* - Underwriting Breakeven (see 2/17/87 report for details)

D. Investment Return on Capital, Premium, and Loss Reserves - 6%

E. Capital

1. Cash - \$1.25 million
2. Letter of Credit - \$1.25 million

Scenario 2 - Rent-A-Captive (Richmond Insurance Co.)

- A. Policy Coverages and Limits - same as Scenario 1 except that the Rent-A-Captive retains \$250,000 per occurrence. (We will have to negotiate an aggregate limit in the Rent-A-Captive in order to keep the Rent-A-Captive fully funded.)
- B. Program Cost Factors
 - 1. Premium Taxes and Assessments 6%
 - 2. Front Fee 8%
 - 3. Claim Handling. 5%
 - 4. Rent-A-Captive Operating Expenses \$221,000
- C. Losses* - Underwriting Breakeven
(see 2/17/87 report for details)
- D. Investment Return on Premium and loss Reserves - 4 1/2%
(because the Rent-A-Captive receives 1 1/2%)
- E. Capital - Renting from Rent-A-Captive, charge is included in Operating Expenses.

Scenarios 3 and 4

Same as Scenarios 1 and 2 respectively except that the Excess Reinsurance factor of 15% has been removed from the program cost factors. We have assumed no losses in the excess layer for demonstration purposes.

Scenario 5A - Captive

- A. Coverage -General Liability -"Uninsurable" Coverages only
(eg. AIDS, Pollution, Discrimination, etc).
- B. Policy Limits - \$5 million per occurrence and aggregate
- C. Program Cost Factors
 - 1. Captive Operating Expenses \$85,000
 - 2. No Front - direct policy from the Captive
- D. Losses - none
- E. Investment Return on Capital, Premium and Loss Reserves - 6%

F. Capital

1. Cash - \$500,000
2. Letter of Credit - \$1,500,000

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*

Scenario 5B - Captive

Same as Scenario 5A except that incurred losses will be \$a million per year.

Scenario 5C - Captive

Same as Scenario 5A except that incurred losses will be \$1 million per year for the 1987,1988,1990, and 1991 underwriting years and \$5 million of incurred losses in 1989.

Scenario 6A - Rent-A-Captive

- A. Coverage - General Liability "Uninsurable" Coverages only
- B. Policy Limit - \$5 million per occurrence and aggregate
- C. Program Cost Factors
 1. Rent-A-Captive Operating Expenses \$98,000
(3% of premium)
 2. No Front - direct policy from the Captive
- D. Losses - none
- E. Investment Return on Premium and Loss Reserves - 4 1/2%
(because the Rent-A-Captive receives 1 1/2%)
- F. Capital - Renting from Rent-A-Captive, charge is included in operating expense.

Scenario 6B - Rent-A-Captive

Same as Scenario 6A except that incurred losses will be \$1 million per year.

Scenario 6C - Rent-A-Captive

Same as Scenario 6A except that incurred losses will be \$1 million per year for the 1987,1988,1990, and 1991 underwriting years and \$5 million of incurred losses in 1989.

James

* Forecast Losses

7/1/87 - 7/1/88

\$250,000 retention

WC	\$3,440,000	43.8%
GL	1,341,000	17.1%
AL	2,332,000	29.7%
A PhyD	<u>734,000</u>	9.4%
TOTAL	\$7,847,000	

Reporting Pattern

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
WC	65	80	87	93	94
GL	44	67	84	90	95
AL	67	85	95	98	99
A PhyD	<u>102</u>	<u>101</u>	<u>100</u>	<u>100</u>	<u>100</u>
TOTAL	65	81	90	95	96

Payout Pattern

WC	35	54	64	74	78
GL	7	14	26	43	62
AL	32	58	70	80	90
A PhyD	<u>85</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
TOTAL	34	53	63	73	81

AMERICAN RED CROSS

SCENARIO 1

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$11,889	\$11,889	\$11,889	\$11,889	\$11,889
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	713	713	713	713	713
Other Program Expenses (Front Fee)	951	951	951	951	951
Claims Handling	594	594	594	594	594
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$2,259	\$2,259	\$2,259	\$2,259	\$2,259
Excess Reinsurance Premiums	1,783	1,783	1,783	1,783	1,783
Net Premiums Available to Pay Losses	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	7,847	7,847	7,847	7,847	7,847

AMERICAN RED CROSS

SCENARIO 1

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,668	4,159	4,943	5,728	6,356
Change in Unpaid Claims Reserve	2,432	2,197	2,119	1,726	1,177
Change in IBNR Reserve	2,746	1,491	785	392	314
Total Losses Incurred - Net of Reins. Recov.	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	138	382	583	750	886
Total Profit Attributed to Underwriting	\$138	\$382	\$583	\$750	\$886
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	19	33	44	52	58
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	104	118	129	137	143
Net Profit Attributed to Captive	\$33	\$264	\$453	\$613	\$743
Investment Profits Allocated to Initial Capital	\$38	\$78	\$83	\$88	\$94
Net Profit before Federal Income Taxes	71	342	537	701	837
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	71	342	537	701	837
Stockholder Dividends Declared					
Change in Retained Earnings	\$71	\$342	\$537	\$701	\$837
Retained Earnings:					
Beginning of Year	0	71	413	950	1,651
End of Year	71	413	950	1,651	2,488

AMERICAN RED CROSS

 SCENARIO 1

 BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$121	\$98	\$132	\$160	\$182
Certificates of Deposit	5,250	8,548	11,400	13,715	15,630
Bonds and Other Investments	597	960	1,281	1,541	1,756
Total Cash and Other Investments	\$5,967	\$9,607	\$12,813	\$15,416	\$17,568
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	445	693	824	955	1,059
Note Receivables	1,250	1,250	1,250	1,250	1,250
Other Receivables	88	230	333	419	490
Total Other Assets	\$1,782	\$2,173	\$2,407	\$2,624	\$2,799
Total Assets	\$7,750	\$11,780	\$15,220	\$18,040	\$20,367
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,432	\$4,630	\$6,748	\$8,474	\$9,651
Reserve for IBNR	2,746	4,237	5,022	5,414	5,728
Total Loss Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Other Payables	0	0	0	0	0
Total Liabilities	5,179	8,867	11,770	13,889	15,380
Shareholders' Equity					
Retained Earnings	71	413	950	1,651	2,488
Cash Capital	1,250	1,250	1,250	1,250	1,250
Non-Cash Capital	1,250	1,250	1,250	1,250	1,250
Total Equity	\$2,571	\$2,913	\$3,450	\$4,151	\$4,988
Total Liabilities and Shareholders' Equity	\$7,750	\$11,780	\$15,220	\$18,040	\$20,367

AMERICAN RED CROSS
SCENARIO 1

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	7,847	7,847	7,847	7,847	7,847
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,847	7,847	7,847	7,847	7,847
Funds Retained by Ceding Company (Chg in Escr)	445	248	131	131	105
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	7,402	7,598	7,716	7,716	7,742
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,668	4,159	4,943	5,728	6,356
Total Payments	2,668	4,159	4,943	5,728	6,356
Net Cashflows from Underwriting	4,734	3,439	2,773	1,988	1,386
Invest Income Received	88	318	563	752	909
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	19	33	44	52	58
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	104	118	129	137	143
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,717	3,639	3,207	2,603	2,152
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,717	3,639	3,207	2,603	2,152
Application of Funds:					
Purchase of Investments	4,622	3,662	3,173	2,575	2,130
Stockholder Dividends Paid					
Total Funds Applied	4,622	3,662	3,173	2,575	2,130
Change in Cash Position	96	(22)	34	27	23
Cash: Beginning of Period	25	121	98	132	160
End of Period	121	98	132	160	182

AMERICAN RED CROSS

SCENARIO 2

(000)

	1987	1988	1989	1990	1991
Total Premiums	----- \$11,889	----- \$11,889	----- \$11,889	----- \$11,889	----- \$11,889
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	713	713	713	713	713
Other Program Expenses (Front Fee)	951	951	951	951	951
Claims Handling	594	594	594	594	594
Policy Issuance	0	0	0	0	0
Total Program Expenses	----- \$2,259	----- \$2,259	----- \$2,259	----- \$2,259	----- \$2,259
Excess Reinsurance Premiums	1,783	1,783	1,783	1,783	1,783
Net Premiums Available to Pay Losses	----- \$7,847	----- \$7,847	----- \$7,847	----- \$7,847	----- \$7,847
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	7,847	7,847	7,847	7,847	7,847

AMERICAN RED CROSS

SCENARIO 2

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,668	4,159	4,943	5,728	6,356
Change in Unpaid Claims Reserve	2,432	2,197	2,119	1,726	1,177
Change in IBNR Reserve	2,746	1,491	785	392	314
Total Losses Incurred - Net of Reins. Recov.	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Pure Underwriting Gain	\$0	\$0	\$0	\$0	\$0
Investment Profits Allocated to Underwriting	101	278	418	532	619
Total Profit Attributed to Underwriting	\$101	\$278	\$418	\$532	\$619
General Operating Expenses:					
Captive Management Fee	202	202	202	202	202
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	19	33	44	52	58
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	221	235	246	254	260
Net Profit Attributed to Captive	(\$121)	\$43	\$172	\$278	\$359
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	(121)	43	172	278	359
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	(121)	43	172	278	359
Stockholder Dividends Declared					
Change in Retained Earnings	(\$121)	\$43	\$172	\$278	\$359
Retained Earnings:					
Beginning of Year	0	(121)	(78)	94	372
End of Year	(121)	(78)	94	372	731

AMERICAN RED CROSS

SCENARIO 2

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$92	\$81	\$110	\$133	\$151
Certificates of Deposit	4,015	7,080	9,638	11,603	13,117
Bonds and Other Investments	456	796	1,083	1,304	1,474
Total Cash and Other Investments	\$4,563	\$7,957	\$10,831	\$13,040	\$14,742
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	445	693	824	955	1,059
Note Receivables	0	0	0	0	0
Other Receivables	50	139	209	266	309
Total Other Assets	\$495	\$832	\$1,033	\$1,220	\$1,369
Total Assets	\$5,058	\$8,789	\$11,864	\$14,260	\$16,110
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,432	\$4,630	\$6,748	\$8,474	\$9,651
Reserve for IBNR	2,746	4,237	5,022	5,414	5,728
Total Loss Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Other Payables	0	0	0	0	0
Total Liabilities	5,179	8,867	11,770	13,889	15,380
Shareholders' Equity					
Retained Earnings	(121)	(78)	94	372	731
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	(\$121)	(\$78)	\$94	\$372	\$731
Total Liabilities and Shareholders' Equity	\$5,058	\$8,789	\$11,864	\$14,260	\$16,110

AMERICAN RED CROSS
SCENARIO 2

CASH FLOW STATEMENT

	(000)				
	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	7,847	7,847	7,847	7,847	7,847
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	7,847	7,847	7,847	7,847	7,847
Funds Retained by Ceding Company (Chg in Escr)	445	248	131	131	105
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	7,402	7,598	7,716	7,716	7,742
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,668	4,159	4,943	5,728	6,356
Total Payments	2,668	4,159	4,943	5,728	6,356
Net Cashflows from Underwriting	4,734	3,439	2,773	1,988	1,386
Invest Income Received	50	189	348	475	575
Other Expenses Paid:					
Captive Management Fee	202	202	202	202	202
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	19	33	44	52	58
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	221	235	246	254	260
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	4,563	3,393	2,874	2,209	1,702
Capital Paid In	0	0	0	0	0
Total Funds Provided	4,563	3,393	2,874	2,209	1,702
Application of Funds:					
Purchase of Investments	4,471	3,405	2,845	2,186	1,684
Stockholder Dividends Paid	0	0	0	0	0
Total Funds Applied	4,471	3,405	2,845	2,186	1,684
Change in Cash Position	92	(11)	30	23	18
Cash: Beginning of Period	0	92	81	110	133
End of Period	92	81	110	133	151

AMERICAN RED CROSS

SCENARIO 3

(000)

	1987	1988	1989	1990	1991
Total Premiums	----- \$11,889	----- \$11,889	----- \$11,889	----- \$11,889	----- \$11,889
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	713	713	713	713	713
Other Program Expenses (Front Fee)	951	951	951	951	951
Claims Handling	594	594	594	594	594
Policy Issuance	0	0	0	0	0
Total Program Expenses	----- \$2,259	----- \$2,259	----- \$2,259	----- \$2,259	----- \$2,259
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	----- \$9,630	----- \$9,630	----- \$9,630	----- \$9,630	----- \$9,630
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	9,630	9,630	9,630	9,630	9,630

AMERICAN RED CROSS

SCENARIO 3

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$9,630	\$9,630	\$9,630	\$9,630	\$9,630
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$9,630	\$9,630	\$9,630	\$9,630	\$9,630
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,668	4,159	4,943	5,728	6,356
Change in Unpaid Claims Reserve	2,432	2,197	2,119	1,726	1,177
Change in IBNR Reserve	2,746	1,491	785	392	314
Total Losses Incurred - Net of Reins. Recov.	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Pure Underwriting Gain	\$1,783	\$1,783	\$1,783	\$1,783	\$1,783
Investment Profits Allocated to Underwriting	191	545	862	1,152	1,417
Total Profit Attributed to Underwriting	\$1,974	\$2,329	\$2,645	\$2,935	\$3,201
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	19	33	44	52	58
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	104	118	129	137	143
Net Profit Attributed to Captive	\$1,870	\$2,210	\$2,516	\$2,798	\$3,058
Investment Profits Allocated to Initial Capital	\$38	\$78	\$83	\$88	\$94
Net Profit before Federal Income Taxes	1,908	2,289	2,599	2,886	3,152
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	1,908	2,289	2,599	2,886	3,152
Stockholder Dividends Declared					
Change in Retained Earnings	\$1,908	\$2,289	\$2,599	\$2,886	\$3,152
Retained Earnings:					
Beginning of Year	0	1,908	4,196	6,796	9,682
End of Year	1,908	4,196	6,796	9,682	12,834

AMERICAN RED CROSS

SCENARIO 3

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$157	\$136	\$191	\$240	\$286
Certificates of Deposit	6,843	11,842	16,477	20,682	24,598
Bonds and Other Investments	778	1,331	1,851	2,324	2,764
Total Cash and Other Investments	\$7,777	\$13,308	\$18,519	\$23,246	\$27,648
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	445	693	824	955	1,059
Note Receivables	1,250	1,250	1,250	1,250	1,250
Other Receivables	114	312	473	620	756
Total Other Assets	\$1,809	\$2,255	\$2,546	\$2,825	\$3,065
Total Assets	\$9,586	\$15,563	\$21,066	\$26,071	\$30,713
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,432	\$4,630	\$6,748	\$8,474	\$9,651
Reserve for IBNR	2,746	4,237	5,022	5,414	5,728
Total Loss Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Other Payables	0	0	0	0	0
Total Liabilities	5,179	8,867	11,770	13,889	15,380
Shareholders' Equity					
Retained Earnings	1,908	4,196	6,796	9,682	12,834
Cash Capital	1,250	1,250	1,250	1,250	1,250
Non-Cash Capital	1,250	1,250	1,250	1,250	1,250
Total Equity	\$4,408	\$6,696	\$9,296	\$12,182	\$15,334
Total Liabilities and Shareholders' Equity	\$9,586	\$15,563	\$21,066	\$26,071	\$30,713

AMERICAN RED CROSS
SCENARIO 3

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	9,630	9,630	9,630	9,630	9,630
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	9,630	9,630	9,630	9,630	9,630
Funds Retained by Ceding Company (Chg in Escr	445	248	131	131	105
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	9,185	9,382	9,499	9,499	9,525
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,668	4,159	4,943	5,728	6,356
Total Payments	2,668	4,159	4,943	5,728	6,356
Net Cashflows from Underwriting	6,518	5,223	4,556	3,771	3,170
Invest Income Received	114	426	784	1,093	1,376
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	19	33	44	52	58
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	104	118	129	137	143
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	6,527	5,531	5,211	4,727	4,402
Capital Paid In	0	0	0	0	0
Total Funds Provided	6,527	5,531	5,211	4,727	4,402
Application of Funds:					
Purchase of Investments	6,395	5,552	5,156	4,677	4,356
Stockholder Dividends Paid					
Total Funds Applied	6,395	5,552	5,156	4,677	4,356
Change in Cash Position	132	(21)	55	49	46
Cash: Beginning of Period	25	157	156	191	240
End of Period	157	136	191	240	286

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AMERICAN RED CROSS

SCENARIO 4

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$11,889	\$11,889	\$11,889	\$11,889	\$11,889
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	713	713	713	713	713
Other Program Expenses (Front Fee)	951	951	951	951	951
Claims Handling	594	594	594	594	594
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$2,259	\$2,259	\$2,259	\$2,259	\$2,259
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$9,630	\$9,630	\$9,630	\$9,630	\$9,630
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	9,630	9,630	9,630	9,630	9,630

AMERICAN RED CROSS

SCENARIO 4

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$9,630	\$9,630	\$9,630	\$9,630	\$9,630
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$9,630	\$9,630	\$9,630	\$9,630	\$9,630
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	2,668	4,159	4,943	5,728	6,356
Change in Unpaid Claims Reserve	2,432	2,197	2,119	1,726	1,177
Change in IBNR Reserve	2,746	1,491	785	392	314
Total Losses Incurred - Net of Reins. Recov.	\$7,847	\$7,847	\$7,847	\$7,847	\$7,847
Pure Underwriting Gain	\$1,783	\$1,783	\$1,783	\$1,783	\$1,783
Investment Profits Allocated to Underwriting	140	397	621	821	999
Total Profit Attributed to Underwriting	\$1,923	\$2,180	\$2,404	\$2,604	\$2,782
General Operating Expenses:					
Captive Management Fee	238	238	238	238	238
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	19	33	44	52	58
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	257	271	282	290	296
Net Profit Attributed to Captive	\$1,665	\$1,909	\$2,122	\$2,314	\$2,487
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	1,665	1,909	2,122	2,314	2,487
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	1,665	1,909	2,122	2,314	2,487
Stockholder Dividends Declared					
Change in Retained Earnings	\$1,665	\$1,909	\$2,122	\$2,314	\$2,487
Retained Earnings:					
Beginning of Year	0	1,665	3,574	5,697	8,011
End of Year	1,665	3,574	5,697	8,011	10,497

AMERICAN RED CROSS

SCENARIO 4

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$127	\$117	\$166	\$209	\$248
Certificates of Deposit	5,570	10,278	14,533	18,272	21,639
Bonds and Other Investments	633	1,155	1,633	2,053	2,431
Total Cash and Other Investments	\$6,330	\$11,550	\$16,332	\$20,534	\$24,318
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	445	693	824	955	1,059
Note Receivables	0	0	0	0	0
Other Receivables	70	198	310	411	499
Total Other Assets	\$514	\$892	\$1,134	\$1,365	\$1,559
Total Assets	\$6,844	\$12,441	\$17,467	\$21,900	\$25,877
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$2,432	\$4,630	\$6,748	\$8,474	\$9,651
Reserve for IBNR	2,746	4,237	5,022	5,414	5,728
Total Loss Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$5,179	\$8,867	\$11,770	\$13,889	\$15,380
Other Payables	0	0	0	0	0
Total Liabilities	5,179	8,867	11,770	13,889	15,380
Shareholders' Equity					
Retained Earnings	1,665	3,574	5,697	8,011	10,497
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	\$1,665	\$3,574	\$5,697	\$8,011	\$10,497
Total Liabilities and Shareholders' Equity	\$6,844	\$12,441	\$17,467	\$21,900	\$25,877

AMERICAN RED CROSS
SCENARIO 4

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	9,630	9,630	9,630	9,630	9,630
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	9,630	9,630	9,630	9,630	9,630
Funds Retained by Ceding Company (Chg in Escr	445	248	131	131	105
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	9,185	9,382	9,499	9,499	9,525
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	2,668	4,159	4,943	5,728	6,356
Total Payments	2,668	4,159	4,943	5,728	6,356
Net Cashflows from Underwriting	6,518	5,223	4,556	3,771	3,170
Invest Income Received	70	268	509	721	910
Other Expenses Paid:					
Captive Management Fee	238	238	238	238	238
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	19	33	44	52	58
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	257	271	282	290	296
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	6,330	5,220	4,783	4,202	3,784
Capital Paid In	0	0	0	0	0
Total Funds Provided	6,330	5,220	4,783	4,202	3,784
Application of Funds:					
Purchase of Investments	6,203	5,230	4,733	4,159	3,745
Stockholder Dividends Paid					
Total Funds Applied	6,203	5,230	4,733	4,159	3,745
Change in Cash Position	127	(10)	49	43	39
Cash: Beginning of Period	0	127	117	166	209
End of Period	127	117	166	209	248

AMERICAN RED CROSS

SCENARIO 5A

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000

AMERICAN RED CROSS

SCENARIO 5A

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate-Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	0	0	0	0	0
Change in Unpaid Claims Reserve	0	0	0	0	0
Change in IBNR Reserve	0	0	0	0	0
Total Losses Incurred - Net of Reins. Recov.	\$0	\$0	\$0	\$0	\$0
Pure Underwriting Gain	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Investment Profits Allocated to Underwriting	87	266	456	656	868
Total Profit Attributed to Underwriting	\$3,087	\$3,266	\$3,456	\$3,656	\$3,868
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	0	0	0	0	0
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	85	85	85	85	85
Net Profit Attributed to Captive	\$3,002	\$3,181	\$3,371	\$3,571	\$3,783
Investment Profits Allocated to Initial Capital	\$15	\$31	\$33	\$35	\$37
Net Profit before Federal Income Taxes	3,017	3,212	3,404	3,606	3,821
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	3,017	3,212	3,404	3,606	3,821
Stockholder Dividends Declared					
Change in Retained Earnings	\$3,017	\$3,212	\$3,404	\$3,606	\$3,821
Retained Earnings:					
Beginning of Year	0	3,017	6,229	9,633	13,239
End of Year	3,017	6,229	9,633	13,239	17,060

AMERICAN RED CROSS

 SCENARIO 5A

 BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$70	\$67	\$102	\$138	\$177
Certificates of Deposit	3,049	5,855	8,798	11,917	15,220
Bonds and Other Investments	347	658	989	1,339	1,710
Total Cash and Other Investments	\$3,466	\$6,581	\$9,889	\$13,394	\$17,107
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	0	0	0	0	0
Note Receivables	1,500	1,500	1,500	1,500	1,500
Other Receivables	51	149	245	346	453
Total Other Assets	\$1,551	\$1,649	\$1,745	\$1,846	\$1,953
Total Assets	\$5,017	\$8,229	\$11,633	\$15,239	\$19,060
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$0	\$0	\$0	\$0	\$0
Reserve for IBNR	0	0	0	0	0
Total Loss Reserves	\$0	\$0	\$0	\$0	\$0
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$0	\$0	\$0	\$0	\$0
Other Payables	0	0	0	0	0
Total Liabilities	0	0	0	0	0
Shareholders' Equity					
Retained Earnings	3,017	6,229	9,633	13,239	17,060
Cash Capital	500	500	500	500	500
Non-Cash Capital	1,500	1,500	1,500	1,500	1,500
Total Equity	\$5,017	\$8,229	\$11,633	\$15,239	\$19,060
Total Liabilities and Shareholders' Equity	\$5,017	\$8,229	\$11,633	\$15,239	\$19,060

AMERICAN RED CROSS
SCENARIO 5B

(000)

	1987	1988	1989
Total Premiums	-----	-----	-----
Brokerage/Consulting Fees	\$3,000	\$3,000	\$3,000
Loss Control Fees	0	0	0
Premium Taxes & Assessments	0	0	0
Other Program Expenses (Front Fee)	0	0	0
Claims Handling	0	0	0
Policy Issuance	0	0	0
Total Program Expenses	-----	-----	-----
Excess Reinsurance Premiums	\$0	\$0	\$0
Net Premiums Available to Pay Losses	-----	-----	-----
Premiums Retained by Primary Carrier	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000

AMERICAN RED CROSS
SCENARIO 5A
CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr)	0	0	0	0	0
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	3,000	3,000	3,000	3,000	3,000
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	0	0	0	0	0
Total Payments	0	0	0	0	0
Net Cashflows from Underwriting	3,000	3,000	3,000	3,000	3,000
Invest Income Received	51	200	393	590	798
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	0	0	0	0	0
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	85	85	85	85	85
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,966	3,115	3,308	3,505	3,713
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,966	3,115	3,308	3,505	3,713
Application of Funds:					
Purchase of Investments	2,906	3,117	3,274	3,469	3,675
Stockholder Dividends Paid					
Total Funds Applied	2,906	3,117	3,274	3,469	3,675
Change in Cash Position	60	(3)	35	36	39
Cash: Beginning of Period	10	70	67	102	138
End of Period	70	67	102	138	177

AMERICAN RED CROSS

SCENARIO 5B

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	70	140	260	430	620
Change in Unpaid Claims Reserve	370	530	580	470	330
Change in IBNR Reserve	560	330	160	100	50
Total Losses Incurred - Net of Reins. Recov.	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Pure Underwriting Gain	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	84	256	432	608	784
Total Profit Attributed to Underwriting	\$2,085	\$2,256	\$2,432	\$2,608	\$2,784
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	0	7	9	12	13
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	85	92	94	97	98
Net Profit Attributed to Captive	\$2,000	\$2,165	\$2,338	\$2,512	\$2,686
Investment Profits Allocated to Initial Capital	\$15	\$31	\$33	\$35	\$37
Net Profit before Federal Income Taxes	2,015	2,196	2,371	2,547	2,723
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	2,015	2,196	2,371	2,547	2,723
Stockholder Dividends Declared					
Change in Retained Earnings	\$2,015	\$2,196	\$2,371	\$2,547	\$2,723
Retained Earnings:					
Beginning of Year	0	2,015	4,210	6,581	9,128
End of Year	2,015	4,210	6,581	9,128	11,851

AMERICAN RED CROSS

SCENARIO 5B

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$68	\$65	\$96	\$127	\$158
Certificates of Deposit	2,976	5,635	8,306	10,974	13,627
Bonds and Other Investments	338	633	933	1,233	1,531
Total Cash and Other Investments	\$3,383	\$6,333	\$9,335	\$12,334	\$15,317
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	12	23	43	72	103
Note Receivables	1,500	1,500	1,500	1,500	1,500
Other Receivables	50	144	233	322	410
Total Other Assets	\$1,561	\$1,667	\$1,776	\$1,893	\$2,014
Total Assets	\$4,944	\$8,000	\$11,111	\$14,228	\$17,331
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$370	\$900	\$1,480	\$1,950	\$2,280
Reserve for IBNR	560	890	1,050	1,150	1,200
Total Loss Reserves	\$930	\$1,790	\$2,530	\$3,100	\$3,480
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$930	\$1,790	\$2,530	\$3,100	\$3,480
Other Payables	0	0	0	0	0
Total Liabilities	930	1,790	2,530	3,100	3,480
Shareholders' Equity					
Retained Earnings	2,015	4,210	6,581	9,128	11,851
Cash Capital	500	500	500	500	500
Non-Cash Capital	1,500	1,500	1,500	1,500	1,500
Total Equity	\$4,015	\$6,210	\$8,581	\$11,128	\$13,851
Total Liabilities and Shareholders' Equity	\$4,944	\$8,000	\$11,111	\$14,228	\$17,331

AMERICAN RED CROSS

SCENARIO 5B

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr	12	12	20	28	32
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	2,988	2,988	2,980	2,972	2,968
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	70	140	260	430	620
Total Payments	70	140	260	430	620
Net Cashflows from Underwriting	2,918	2,848	2,720	2,542	2,348
Invest Income Received	50	193	376	554	732
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	0	7	9	12	13
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	85	92	94	97	98
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,883	2,950	3,002	2,999	2,983
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,883	2,950	3,002	2,999	2,983
Application of Funds:					
Purchase of Investments	2,825	2,954	2,971	2,968	2,951
Stockholder Dividends Paid					
Total Funds Applied	2,825	2,954	2,971	2,968	2,951
Change in Cash Position	58	(4)	31	31	31
Cash: Beginning of Period	10	68	65	96	127
End of Period	68	65	96	127	158

AMERICAN RED CROSS

SCENARIO 5C

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000

AMERICAN RED CROSS

SCENARIO 5C

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	70	140	540	710	1,100
Change in Unpaid Claims Reserve	370	530	2,060	1,110	530
Change in IBNR Reserve	560	330	2,400	(820)	(630)
Total Losses Incurred - Net of Reins. Recov.	\$1,000	\$1,000	\$5,000	\$1,000	\$1,000
Pure Underwriting Gain	\$2,000	\$2,000	(\$2,000)	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	84	256	422	578	728
Total Profit Attributed to Underwriting	\$2,085	\$2,256	(\$1,578)	\$2,578	\$2,728
General Operating Expenses:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't	5	5	5	5	5
Charges for Banking Services (LOC, etc.)	0	7	23	25	24
Miscellaneous Expenses (travel, hotels, etc.)	20	20	20	20	20
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	85	92	108	110	109
Net Profit Attributed to Captive	\$2,000	\$2,165	(\$1,687)	\$2,469	\$2,619
Investment Profits Allocated to Initial Capital	\$15	\$31	\$33	\$35	\$37
Net Profit before Federal Income Taxes	2,015	2,196	(1,653)	2,504	2,656
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	2,015	2,196	(1,653)	2,504	2,656
Stockholder Dividends Declared					
Change in Retained Earnings	\$2,015	\$2,196	(\$1,653)	\$2,504	\$2,656
Retained Earnings:					
Beginning of Year	0	2,015	4,210	2,557	5,061
End of Year	2,015	4,210	2,557	5,061	7,717

AMERICAN RED CROSS

SCENARIO 5C

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$68	\$65	\$93	\$121	\$146
Certificates of Deposit	2,976	5,635	7,998	10,388	12,536
Bonds and Other Investments	338	633	899	1,167	1,409
Total Cash and Other Investments	\$3,383	\$6,333	\$8,989	\$11,676	\$14,091
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	12	23	90	118	183
Note Receivables	1,500	1,500	1,500	1,500	1,500
Other Receivables	50	144	227	307	383
Total Other Assets	\$1,561	\$1,667	\$1,817	\$1,925	\$2,066
Total Assets	\$4,944	\$8,000	\$10,807	\$13,601	\$16,157
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$370	\$900	\$2,960	\$4,070	\$4,600
Reserve for IBNR	560	890	3,290	2,470	1,840
Total Loss Reserves	\$930	\$1,790	\$6,250	\$6,540	\$6,440
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$930	\$1,790	\$6,250	\$6,540	\$6,440
Other Payables	0	0	0	0	0
Total Liabilities	930	1,790	6,250	6,540	6,440
Shareholders' Equity					
Retained Earnings	2,015	4,210	2,557	5,061	7,717
Cash Capital	500	500	500	500	500
Non-Cash Capital	1,500	1,500	1,500	1,500	1,500
Total Equity	\$4,015	\$6,210	\$4,557	\$7,061	\$9,717
Total Liabilities and Shareholders' Equity	\$4,944	\$8,000	\$10,807	\$13,601	\$16,157

AMERICAN RED CROSS
SCENARIO 5C

CASH FLOW STATEMENT

	(000)				
	1987	1988	1989	1990	1991
	-----	-----	-----	-----	-----
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr	12	12	67	28	65
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	2,988	2,988	2,933	2,972	2,935
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	70	140	540	710	1,100
Total Payments	70	140	540	710	1,100
Net Cashflows from Underwriting	2,918	2,848	2,393	2,262	1,835
Invest Income Received	50	193	371	534	689
Other Expenses Paid:					
Captive Management Fee	40	40	40	40	40
Legal, Accounting, etc.	20	20	20	20	20
Annual Company Fee to Gov't.	5	5	5	5	5
Charges for Banking Services	0	7	23	25	24
Miscellaneous Expenses	20	20	20	20	20
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	85	92	108	110	109
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,883	2,950	2,656	2,686	2,415
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,883	2,950	2,656	2,686	2,415
Application of Funds:					
Purchase of Investments	2,825	2,954	2,628	2,658	2,390
Stockholder Dividends Paid					
Total Funds Applied	2,825	2,954	2,628	2,658	2,390
Change in Cash Position	58	(4)	28	28	25
Cash: Beginning of Period	10	68	65	93	121
End of Period	68	65	93	121	146

AMERICAN RED CROSS

SCENARIO 6A

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000

AMERICAN RED CROSS

SCENARIO 6A

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	0	0	0	0	0
Change in Unpaid Claims Reserve	0	0	0	0	0
Change in IBNR Reserve	0	0	0	0	0
Total Losses Incurred - Net of Reins. Recov.	\$0	\$0	\$0	\$0	\$0
Pure Underwriting Gain	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Investment Profits Allocated to Underwriting	65	198	336	481	631
Total Profit Attributed to Underwriting	\$3,065	\$3,198	\$3,336	\$3,481	\$3,631
General Operating Expenses:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	8	8	8	8	8
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	98	98	98	98	98
Net Profit Attributed to Captive	\$2,967	\$3,100	\$3,239	\$3,383	\$3,534
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	2,967	3,100	3,239	3,383	3,534
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	2,967	3,100	3,239	3,383	3,534
Stockholder Dividends Declared					
Change in Retained Earnings	\$2,967	\$3,100	\$3,239	\$3,383	\$3,534
Retained Earnings:					
Beginning of Year	0	2,967	6,067	9,305	12,688
End of Year	2,967	6,067	9,305	12,688	16,222

AMERICAN RED CROSS

SCENARIO 6A

BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$59	\$60	\$93	\$127	\$162
Certificates of Deposit	2,582	5,311	8,131	11,076	14,154
Bonds and Other Investments	293	597	914	1,245	1,590
Total Cash and Other Investments	\$2,935	\$5,968	\$9,137	\$12,448	\$15,906
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	0	0	0	0	0
Note Receivables	0	0	0	0	0
Other Receivables	32	99	168	240	316
Total Other Assets	\$32	\$99	\$168	\$240	\$316
Total Assets	\$2,967	\$6,067	\$9,305	\$12,688	\$16,222
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$0	\$0	\$0	\$0	\$0
Reserve for IBNR	0	0	0	0	0
Total Loss Reserves	\$0	\$0	\$0	\$0	\$0
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$0	\$0	\$0	\$0	\$0
Other Payables	0	0	0	0	0
Total Liabilities	0	0	0	0	0
Shareholders' Equity					
Retained Earnings	2,967	6,067	9,305	12,688	16,222
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	\$2,967	\$6,067	\$9,305	\$12,688	\$16,222
Total Liabilities and Shareholders' Equity	\$2,967	\$6,067	\$9,305	\$12,688	\$16,222

AMERICAN RED CROSS
SCENARIO 6A

CASH FLOW STATEMENT

(000)

	1987 -----	1988 -----	1989 -----	1990 -----	1991 -----
Net Premiums Ceded to Captive Change in Premiums Receivable	3,000 0	3,000 0	3,000 0	3,000 0	3,000 0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr Excise Taxes Paid	0 0	0 0	0 0	0 0	0 0
Net Funds Received	3,000	3,000	3,000	3,000	3,000
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	0	0	0	0	0
Total Payments	0	0	0	0	0
Net Cashflows from Underwriting	3,000	3,000	3,000	3,000	3,000
Invest Income Received	32	131	267	409	556
Other Expenses Paid:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	8	8	8	8	8
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	98	98	98	98	98
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,935	3,033	3,169	3,311	3,458
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,935	3,033	3,169	3,311	3,458
Application of Funds:					
Purchase of Investments	2,875	3,032	3,137	3,277	3,423
Stockholder Dividends Paid					
Total Funds Applied	2,875	3,032	3,137	3,277	3,423
Change in Cash Position	59	1	32	34	35
Cash: Beginning of Period	0	59	60	93	127
End of Period	59	60	93	127	162

AMERICAN RED CROSS

SCENARIO 6B

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000

AMERICAN RED CROSS

SCENARIO 6B

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Change in Premium Reserve	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	70	140	260	430	620
Change in Unpaid Claims Reserve	370	530	580	470	330
Change in IBNR Reserve	560	330	160	100	50
Total Losses Incurred - Net of Reins. Recov.	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Pure Underwriting Gain	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	63	190	319	446	571
Total Profit Attributed to Underwriting	\$2,063	\$2,190	\$2,319	\$2,446	\$2,571
General Operating Expenses:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	8	8	8	8	8
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	98	98	98	98	98
Net Profit Attributed to Captive	\$1,965	\$2,093	\$2,221	\$2,348	\$2,473
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	1,965	2,093	2,221	2,348	2,473
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	1,965	2,093	2,221	2,348	2,473
Stockholder Dividends Declared					
Change in Retained Earnings	\$1,965	\$2,093	\$2,221	\$2,348	\$2,473
Retained Earnings:					
Beginning of Year	0	1,965	4,058	6,279	8,628
End of Year	1,965	4,058	6,279	8,628	11,100

AMERICAN RED CROSS

 SCENARIO 68
 BALANCE SHEET

(000)

	1987	1988	1989	1990	1991
ASSETS:					
Cash and Investments					
Cash on Hand & Overnight Deposits	\$57	\$58	\$87	\$116	\$145
Certificates of Deposit	2,509	5,098	7,658	10,173	12,628
Bonds and Other Investments	285	573	860	1,143	1,419
Total Cash and Other Investments	\$2,852	\$5,729	\$8,606	\$11,433	\$14,192
Other Assets					
Premiums Receivable	0	0	0	0	0
Funds Held by Ceding Company	12	23	43	72	103
Note Receivables	0	0	0	0	0
Other Receivables	31	95	160	223	285
Total Other Assets	\$43	\$119	\$203	\$295	\$389
Total Assets	\$2,895	\$5,848	\$8,809	\$11,728	\$14,580
LIABILITIES AND SHAREHOLDERS' EQUITY					
Underwriting Reserves					
Liabilities for Unpaid Claims	\$370	\$900	\$1,480	\$1,950	\$2,280
Reserve for IBNR	560	890	1,050	1,150	1,200
Total Loss Reserves	\$930	\$1,790	\$2,530	\$3,100	\$3,480
Reserve for Unearned Premiums	0	0	0	0	0
Total Underwriting Reserves	\$930	\$1,790	\$2,530	\$3,100	\$3,480
Other Payables	0	0	0	0	0
Total Liabilities	930	1,790	2,530	3,100	3,480
Shareholders' Equity					
Retained Earnings	1,965	4,058	6,279	8,628	11,100
Cash Capital	0	0	0	0	0
Non-Cash Capital	0	0	0	0	0
Total Equity	\$1,965	\$4,058	\$6,279	\$8,628	\$11,100
Total Liabilities and Shareholders' Equity	\$2,895	\$5,848	\$8,809	\$11,728	\$14,580

AMERICAN RED CROSS
SCENARIO 6B

CASH FLOW STATEMENT

(000)

	1987 -----	1988 -----	1989 -----	1990 -----	1991 -----
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Eschr	12	12	20	28	32
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	2,988	2,988	2,980	2,972	2,968
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	70	140	260	430	620
Total Payments	70	140	260	430	620
Net Cashflows from Underwriting	2,918	2,848	2,720	2,542	2,348
Invest Income Received	31	127	255	383	508
Other Expenses Paid:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	8	8	8	8	8
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	98	98	98	98	98
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,852	2,877	2,877	2,827	2,759
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,852	2,877	2,877	2,827	2,759
Application of Funds:					
Purchase of Investments	2,795	2,877	2,848	2,798	2,731
Stockholder Dividends Paid					
Total Funds Applied	2,795	2,877	2,848	2,798	2,731
Change in Cash Position	57	1	29	29	28
Cash: Beginning of Period	0	57	58	87	116
End of Period	57	58	87	116	145

AMERICAN RED CROSS

SCENARIO 6C

(000)

	1987	1988	1989	1990	1991
Total Premiums	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Brokerage/Consulting Fees	0	0	0	0	0
Loss Control Fees	0	0	0	0	0
Premium Taxes & Assessments	0	0	0	0	0
Other Program Expenses (Front Fee)	0	0	0	0	0
Claims Handling	0	0	0	0	0
Policy Issuance	0	0	0	0	0
Total Program Expenses	\$0	\$0	\$0	\$0	\$0
Excess Reinsurance Premiums	0	0	0	0	0
Net Premiums Available to Pay Losses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Premiums Retained by Primary Carrier	0	0	0	0	0
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000

AMERICAN RED CROSS

SCENARIO 6C

INCOME STATEMENT

(000)

	1987	1988	1989	1990	1991
Premiums Booked					
Change in Premium Reserve	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
	0	0	0	0	0
Premiums Earned	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Excise Taxes	0	0	0	0	0
Reinsurance Charges	0	0	0	0	0
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Total Expenses	0	0	0	0	0
Loss Experience:					
Losses Paid	70	140	540	710	1,100
Change in Unpaid Claims Reserve	370	530	2,060	1,110	530
Change in IBNR Reserve	560	330	2,400	(820)	(630)
Total Losses Incurred - Net of Reins. Recov.	\$1,000	\$1,000	\$5,000	\$1,000	\$1,000
Pure Underwriting Gain	\$2,000	\$2,000	(\$2,000)	\$2,000	\$2,000
Investment Profits Allocated to Underwriting	63	190	312	425	531
Total Profit Attributed to Underwriting	\$2,063	\$2,191	(\$1,688)	\$2,425	\$2,531
General Operating Expenses:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't	0	0	0	0	0
Charges for Banking Services (LOC, etc.)	8	8	8	8	8
Miscellaneous Expenses (travel, hotels, etc.)	0	0	0	0	0
Amortization of Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total General Operating Expenses	98	98	98	98	98
Net Profit Attributed to Captive	\$1,965	\$2,093	(\$1,786)	\$2,327	\$2,433
Investment Profits Allocated to Initial Capital	\$0	\$0	\$0	\$0	\$0
Net Profit before Federal Income Taxes	1,965	2,093	(1,786)	2,327	2,433
Federal Income Taxes	\$0	\$0	\$0	\$0	\$0
Net Profit After Federal Income Taxes	1,965	2,093	(1,786)	2,327	2,433
Stockholder Dividends Declared					
Change in Retained Earnings	\$1,965	\$2,093	(\$1,786)	\$2,327	\$2,433
Retained Earnings:					
Beginning of Year	0	1,965	4,058	2,272	4,599
End of Year	1,965	4,058	2,272	4,599	7,032

AMERICAN RED CROSS
SCENARIO 6C

CASH FLOW STATEMENT

(000)

	1987	1988	1989	1990	1991
Net Premiums Ceded to Captive	3,000	3,000	3,000	3,000	3,000
Change in Premiums Receivable	0	0	0	0	0
Premiums Collected	3,000	3,000	3,000	3,000	3,000
Funds Retained by Ceding Company (Chg in Escr	12	12	67	28	65
Excise Taxes Paid	0	0	0	0	0
Net Funds Received	2,988	2,988	2,933	2,972	2,935
Reinsurance Premiums Paid:					
Aggregate Stop	0	0	0	0	0
Excess of Loss	0	0	0	0	0
Losses Paid	70	140	540	710	1,100
Total Payments	70	140	540	710	1,100
Net Cashflows from Underwriting	2,918	2,848	2,393	2,262	1,835
Invest Income Received	31	127	251	368	478
Other Expenses Paid:					
Captive Management Fee	90	90	90	90	90
Legal, Accounting, etc.	0	0	0	0	0
Annual Company Fee to Gov't.	0	0	0	0	0
Charges for Banking Services	8	8	8	8	8
Miscellaneous Expenses	0	0	0	0	0
Formation Costs	0	0	0	0	0
Actuarial Fees	0	0	0	0	0
Total Other Expenses Paid	98	98	98	98	98
Taxes Paid	0	0	0	0	0
Net Funds Generated from Operations	2,852	2,877	2,547	2,532	2,215
Capital Paid In	0	0	0	0	0
Total Funds Provided	2,852	2,877	2,547	2,532	2,215
Application of Funds:					
Purchase of Investments	2,795	2,877	2,521	2,506	2,192
Stockholder Dividends Paid					
Total Funds Applied	2,795	2,877	2,521	2,506	2,192
Change in Cash Position	57	1	26	26	23
Cash: Beginning of Period	0	57	58	84	110
End of Period	57	58	84	110	133