



FTI Consulting, Inc.

Global Insurance Industry Services

Materials Prepared for Discussion



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CONFIDENTIAL ADVISORS ACROSS THE GLOBAL ECONOMY

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United Arab Emirates
Abu Dhabi
Dubai

United Kingdom
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London
Manchester
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Stirling

15 of 25

Largest Insurance & Reinsurance Companies

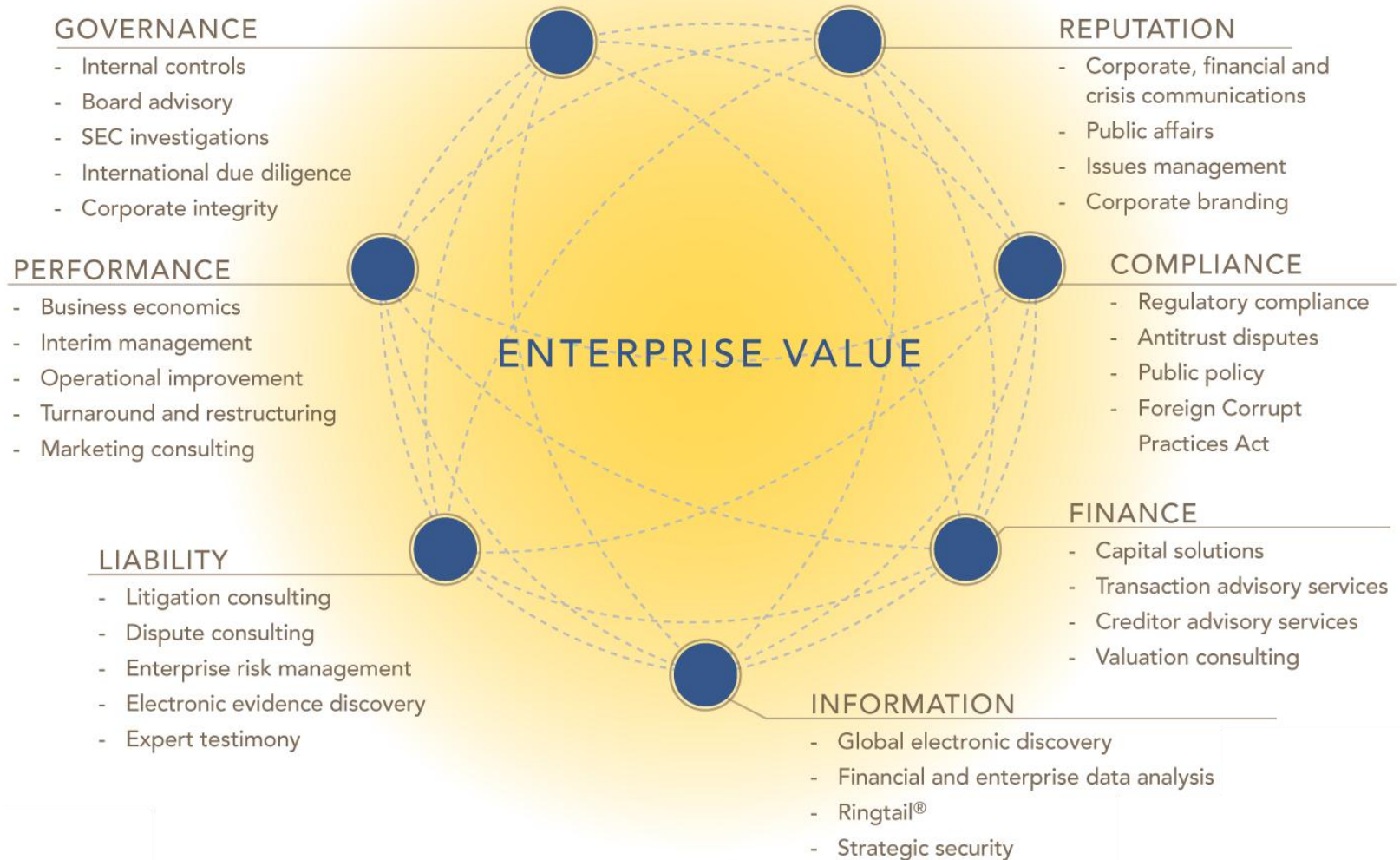
85% of all Fortune 100 companies

5 of 10 largest US IPOs over past 5 years

97 of the top 100 law firms

9 of 10 top bank holding companies in the world

Drawing on the Global Resources of FTI to Deliver Critical Services...



Credentialed Experts...100s of Engagements...Every Aspect of Insurance...All Segments



Professionals With Deep Experienced Helping Clients Through Crisis Situations...

- **Transaction Advisory Services**
- **Capital Raising/Company Formation**
- **Regulatory and Rating Agency Matters**
- **Captive Domestication**
- **Operations and Performance Enhancement**
- **Actuarial Consulting**
- **Claims Consulting**
- **Enterprise Risk Solutions**
- **Financial Management**
- **Information Technology**
- **Intellectual Property Consulting**
- **Investigations and Forensic Services**
- **Litigation Support Services**
- **Marketing and Distribution**
- **Pricing and Underwriting**



Our Profile...

CLIENTS

- Fortune 100
- Top 100 Law Firms
- Bank Holding Companies
- Government Agencies
- Insurance Regulators

EXPERIENCE

- Asset Management
- Brokers
- Primary Insurers
- Reinsurers
- Captives
- Risk Retention Groups
- Self-Insureds
- Insureds

EXPERTISE

- Risk Assessment / Mitigation / Management
- Financial Management
- Corporate Governance
- Rating Agency
- Capital Formation/Company Formation
- Business Strategies
- Investigations and Analysis
- Arbitration / Litigation Support
- Large-Scale / Confidential Case Management



FTI Consulting, Inc.

Global Insurance Industry Services

INTRODUCTION: OFFSHORE ENERGY INSURANCE SOLUTIONS



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FTI CONSULTING, INC GLOBAL INSURANCE INDUSTRY SERVICES



OFFSHORE ENERGY INSURANCE SOLUTIONS

Introduction

In light of recent events in the Gulf from the Deep Water Horizon spill and factors such as current insurance market's capacity, higher regulatory mandates under the Oil Pollution Act (OPA) and cost for coverage on off-shore commercial risk coverages, consideration needs to be given to alternative market solutions that can support the smaller participants' collective approach to risk management.

We look at the solutions through three alternative market approaches which are discussed in this document:

- Captives
- Side Car
- Program Issuer

Current industry solution is near term and should be pursued with full expectation that the members have a viable exit strategy



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Background

Proposed increases in required levels of oil spill financial responsibility (OSFR) from an offshore facility and associated pipelines proposes requires proof of financial responsibility under Section 1016 of the Oil Pollution Act (OPA) resulting in typical minimum limits of \$1.2B - \$1.5B per unit risk.

Existing insurance markets remain but prices have risen 15% - 50% respectively for shallow water and deep water drilling, respectively.

Captive or industry-sponsored solutions have successfully been used in the past by other industry to address their needs

- Product liability companies in the early 1980s, the predecessors to companies today like ACE Ltd. and XL Group
- Professional liability groups for accountants, doctors and lawyers
- Oil Insurance Ltd. In Bermuda for property and weather-related damage and interruptions
- UPS formation of Overseas Partners Ltd., a shareholder owned captive

Regardless, the required insurance solution will require substantial new capacity from either the existing global insurance markets or from an industry led solution.

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Background



Aggregation of approximately 30 smaller producers, led principally by funds are seeking a limited use vehicle to absorb the funding of these increased limits

In the event of an incident, the funding mechanism will be limited to costs and liability related to closing the well and resultant clean up such as:

- Aspects of Operator's Extra Expense related to pollution and seepage, certain 3rd party bodily injury and property damages, costs of cleanup and defense costs (excluding drilling platform operational related costs)
- Environmental/Pollution Liability
- Business Interruption arising out of any single non-weather related drilling incident

Coverage begins and ends with an actual drilling "life-cycle"

Terms for organizational structure, funding and proportionate allocations are part of the Joint Operating Agreements (JOAs) amongst participant



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Capital Considerations

The Group will have to determine the appropriate level of risk and calculation of premium (gross and net)

The premium levels can then be used to determine the respective levels of capital requirements

Such capital can be partially secured from private equity investors and/or debt capital in order to mitigate sponsors initial capital contributions

For risk management/fiduciary purposes, as well as for securing 3rd party unrelated business, the entity may seek to be rated and appropriately capitalized

- This will likely require an AM Best rating of A- or better
- Such a rating will likely require a minimum of \$500M in capital in order to secure adequate ratings

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Options to be Considered – Risk Retention Group Pooling Vehicles



A risk retention group (“RRG”) is a way that similar businesses can pool and spread risk through a captive vehicle. In the U.S., RRGs are provided under by special state laws that provide more favorable regulations than traditional Insurers. For non-U.S. businesses, RRGs can readily be formed offshore in domiciliations such as Bermuda

While captives allow single corporations to self-insure through an insurance company they own, group captives/pooling arrangements allow groups of companies to insure each other and share losses up to a high deductible and purchase reinsurance for catastrophes.

Pooling arrangements can be configured in conjunction with other insurance and reinsurance markets for specific needs.

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Options to be Considered – Risk Retention Group Pooling Vehicles



Major considerations

Management Structure - The RRG would require its own operating infrastructure, including management, underwriting and governance. Non-core functions can be outsourced. Quota-share and excess-of-loss reinsurance can be purchased to manage risk and generate additional capacity

Funding Mechanism - To form an RRG, industry participants would jointly capitalize a vehicle that would in turn sell policies to its owners. Participants self-insure as an aggregate group and retain any profits as a group. RRGs essentially acts as a mutual insurer

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Options to be Considered – Risk Retention Group Pooling Vehicles



Advantages

- Could be viewed as a long-term solution
- Scalable solution capable of addressing widespread demand at lower risk layers
- Ability to retain profits if newfound risks ultimately prove to be exaggerated

Disadvantages

- Complexity and speed of launch
- Ability to survive through soft-market cycles in the future as commercial rates become more competitive and efficient
- Reinsurance pricing still subject to hard market terms and availability of excess coverage at high risk-layers
- May not be a cost-effective solution unless sufficient scale is achieved to rationalize operating overhead and personnel costs

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Options to be Considered – Captive Sidecar



A sidecar is a virtual insurance vehicle that is managed by an existing insurer but separately capitalized. Members share in commonality of risk.

Traditionally sidecars are sourced business by the existing insurer and serve as a way to bolster its own gross capacity. In this case, however, industry participants would capitalize a sidecar and provide it business as a captive mutual insurer.

Major considerations

Management Structure - A sidecar would work similarly as an RRG but operations would be outsourced to a partnering existing insurer.

Funding Mechanism - Rather than incur direct operating expenses, the sidecar would pay a pre-established management fee to the insurer, usually as a percentage of premiums. The partnering insurer may also assume some of the book on a quota share basis to align its interests in managing the book correctly.

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Options to be Considered – Captive Sidecar



Advantages

- Simpler / quicker to establish than an RRG
- Managed by proven team with established operations
- May be more cost-effective as a smaller solution
- Partnership with an existing carrier could lead to other opportunities or enhancements
- The sidecar could also purchase external reinsurance

Disadvantages

- May not be a long-term solution
- May not be cost-effective as a large scale solution
- May require significant excess capacity from the reinsurance markets for high-limits

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Options to be Considered – Program Issuer



A reinsurance vehicle will likely be employed, depending on the extent of capacity constraints in different part of the risk spectrum, and the appetite of existing insurers. A reinsurance vehicle would be jointly capitalized by industry participants.

This structure will rely upon a “fronting” primary issuer domiciled in the U.S.

Major considerations

Management Structure - It could be formed as a standalone operation with a small staff or as a sidecar to an existing carrier. Independent insurers would provide policies to industry participants under a program by which the insurers would either be obligated or have the option of receiving reinsurance coverage from the vehicle. Reinsurance coverage could be quota share or excess of loss depending on the market demand.

Funding Mechanism - Initially, the vehicle could be captive to industry players only but depending on its capitalization it potentially can offer reinsurance coverage more broadly to attain additional profits.

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Options to be Considered – Reinsurance Vehicle



Advantages

- Efficiently deploys capacity to marketplace, particularly in excess-risk layers
- Could be used in conjunction with another solution
- This solution may provide necessary risk capacity to the market and reduce rates while letting industry participants and insurers still operate with normal marketplace dynamics

Disadvantages

- Does not address potential capacity issues or price hardening in the lower risk layers
- Places reliance on available fronting carrier.



FTI Consulting, Inc.

Global Insurance Industry Services

INTRODUCTION: INDUSTRY FUNDING

Developing a Business Plan



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Developing a Business Plan

- Cost of Capital
- Sources of Capital
- Rating Agencies
- Domestication
- Reinsurance Program
- Management/Governance
- Structure
- Board Members
- Timing
- Regulatory Actions
- Market Risk Assessment



FTI Consulting, Inc.

Global Insurance Industry Services

Our Approach...



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Our Engagements Are Guided By Principles That Ensure We Deliver Enhanced and Lasting Value To Our Clients...

- **Deep Industry Experience** – *Our team members are experts with practical domain knowledge in a broad range of management, financial, operational, and technical functions within the insurance industry.*
- **Multi-disciplinary Teams** – *In addition to our the expertise within our Insurance Services Practice, we are able to draw on the global resources of FTI Consulting to ensure that clients benefit from the perspectives and solutions enabled by the specialized expertise and experience in other disciplines.*
- **Strategic Thinkers** – *Our team leaders are also thought leaders who put immediate requirements into strategic perspective in order to ensure lasting value when delivering services.*
- **Technical and Business Acumen** – *Our consultants deploy technical skills within the context of a full understanding of business requirements and objectives.*
- **Collaborative Approach** – *We work closely with our clients throughout the engagement process to ensure the most effective use of mutual resources.*
- **Knowledge Transfer** – *Our team leaders strive to educate client resources in findings, solutions and best practices to help ensure on-going success.*
- **Pragmatic Solutions** – *In addition to addressing strategic imperatives, our solutions are designed to be practical, offering immediate measurable results.*
- **Commitment To Excellence** – *We continuously demonstrate our commitment to excellence by delivering enhanced and lasting value to our clients.*



FTI Consulting, Inc.

Global Insurance Industry Services

Our senior team members...



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Our Teams Have Years of Leadership Experience Within Insurance Financial and Operational Functions...

- Participated in due diligence of an international insurer - conducting reserve review, operational review, analysis of pricing and risk selection, and assessment of management.
- Performed financial and operational review of the South Carolina Reinsurance Facility and testified at Senate hearing on changing the structure to be similar to the majority of other states.
- Ten years experience at ISO, including analysis of industry loss costs, rating plans, etc.
- Headed actuarial department at major insurer
- Board and audit committee members
- CFO of L&H and P&C Companies
- Director of internal audit
- 'Big 4' audit partners
- President & COO of runoff reinsurance company
- VP corporate planning
- Chief actuary of reinsurance company
- Chief underwriting officer of global reinsurer

Practice Leaders



Richard Hershman

Senior Managing Director

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Richard Hershman, Senior Managing Director and Global Insurance Industry Practice Leader

Mr. Hershman is a CPA and has more than 35 years of professional experience in accounting, auditing, financial investigations, and complex financial matters involving financial reporting and the application of generally accepted accounting principles (GAAP) and statutory accounting principles. Mr. Hershman's career includes assignments as executive vice president, chief financial officer and member of the board of a major insurance carrier and has been on the board and audit committee of several other insurance companies. In addition, he was an audit partner at one of the Big 8 accounting firms and an officer at one of the leading international investigations and intelligence firms.

Mr. Hershman's experience includes:

- Conducted investigations, including financial and operational review of the South Carolina Reinsurance Facility for the S.C. Senate Banking and Insurance Committee
- Leading expert in critical insurance industry issues relating to reinsurance contracts, auditing procedures, and carrier solvency
- Former CFO for company formed by The Zurich Insurance Group to administer the run-off of the Home Insurance Company
- Former CFO for PSM Insurance Companies
- Former engagement partner on insurance company financial audits

Practice Leaders



Wendy Shapss

Senior Managing Director

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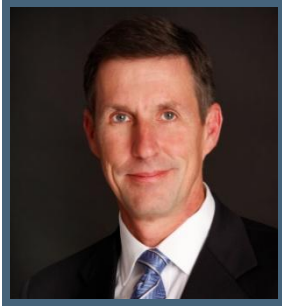
Wendy Shapss, Senior Managing Director, Global Insurance Industry Practice

Ms. Shapss is a CPA and has over 18 years experience in accounting, auditing, fraud and financial-based matters and specializes in litigation consulting, forensic accounting and fraud and financial investigations. Ms. Shapss has advised on cases involving lost profits, breach of contract claims, and accountants' malpractice. Her assignments have given her a broad range of industry experience. These industries include insurance, financial services, hospitality, automotive, waste management, publishing, and not-for-profit.

Ms. Shapss' experience includes:

- Involvement with an arbitrations which has included providing a binding conclusion regarding the appropriate audit steps for the testing of reinsurance contracts.
- Reviewed and analyzed reinsurance invoices to determine their accuracy in connection with an arbitration matter.
- Assisted counsel to a big four accounting firm in defending a litigation alleging misstatement of financial information leading to the liquidation of an insurance company.
- Worked on various litigation matters involving internal controls surrounding revenue recognition, allocation of expenses, reimbursement policies, recovery of rebates and credits, and reward programs.
- Provided litigation assistance in defending an actuarial firm, where the insurance liquidator is claiming negligence against the actuarial firms.

Practice Leaders



Paul Braithwaite

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Paul Braithwaite, Senior Managing Director, Global Insurance Industry Practice

As a past President of the Casualty Actuarial Society with over 30 years of industry experience, Mr. Braithwaite offers deep knowledge and understanding of actuarial science, underwriting and insurance and reinsurance company management. He is an oft-requested speaker at industry events and conferences on topics including Solvency II, Capital Requirements and Capital Modeling, Reinsurance Risk-Transfer and Reinsurance Pricing. He has also published several articles on these topics.

Mr. Braithwaite's consulting and industry experience includes:

- Extensive work with insurance companies, captives, self-insureds, brokers, and investment firms
- Serving as an Appointed Actuary to insurance companies
- Provision of expert testimony / dispute resolution support, loss reserve reviews, reinsurance commutations / reserve reviews, underwriting audits, due diligence, finite risk / structured product pricing analysis and regulatory services
- Reinsurance pricing and underwriting consulting including the specialty areas of professional liability, workers compensation, umbrella liability, accident and health, agriculture, surety and various other lines of property-casualty business, including home and auto
- Consulting on capital standards for life, health and property-casualty business
- Acquisition advisory consulting for a major multi-line insurance group.
- Chief Actuary as well as Senior Vice President & Chief Underwriting Officer for several global specialty business lines

Team Leaders



Allan Kaufman

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Allan Kaufman is a member of FTI's Global Insurance Services practice.

Allan Kaufman is a Fellow of the Casualty Actuarial Society with 30 years experience as a consulting actuary, 25 in the US and six in the UK. Mr. Kaufman has worked in the US, Europe and Asia on all types of casualty insurance actuarial consulting assignments including ratemaking and rating plans, merger and acquisition analyses, loss reserving, dynamic financial analysis, new product development, financial planning, risk assessment, and regulatory issues.

He has prepared written testimony and testified in depositions and in court and before regulators and legislative committees on a variety of insurance issues.

Allan's clients have included multi-line primary and reinsurance companies, Lloyd's syndicates and other London market reinsurers, and specialty companies in areas including workers compensation, medical malpractice, professional liability, health, title and warranty insurance.

Mr. Kaufman hold the professional designations of Fellow of the Casualty Actuarial Society, Member of the American Academy of Actuaries, Honorary Fellow of the Institute of Actuaries, Chartered Property and Casualty Underwriter, and Associate in Risk Management. He holds B.S. in Mathematics and Physics from Brooklyn College and an M.S. in Physics from University of Wisconsin.

Mr. Kaufman has participated on several advisory committees for the NAIC, the Casualty Actuarial Society, the American Academy of Actuaries, the International Actuarial Association, and the Institute of Actuaries (UK).

Team Leaders



Michael Flaharty

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Michael Flaharty is a member of FTI's global insurance services practice.

Mr. Flaharty has more than 30 years of experience in insurance, reinsurance, and self-insurance focused on property and casualty. Mr. Flaharty's diverse expertise includes management consulting, claims, operations, technology, strategic planning, merger and acquisitions, financial due diligence, runoff, and enterprise risk management (ERM).

Mr. Flaharty's operations and technology experience includes the design and implementation of business process strategies and technology for claims handling, transaction environments, regulatory environments, document management systems, legal collaboration systems, and insurance pooling mechanisms.

The financial transaction experience of Mr. Flaharty includes due diligence (both M&A and divestiture) liability analysis, insurance program integration, carve-outs for major buy-sell activities, capital raising efforts, and post-acquisition integration, claim design, portfolio valuation and business redesign. Mr. Flaharty was also involved from a Risk Management perspective in the early formation of ACE and XL.

In runoffs, Mr. Flaharty led liquidation and runoff services for multiple voluntary and regulatory mandated runoffs; arranged support and placement of runoff operations in support of the acquisition of a multi state workers' compensation insurer; and served as Conservator for a state controlled carrier in runoff.

Mr. Flaharty's litigation support and expert testimony experience includes analysis and expert testimony on multiple major London and reinsurance litigation matters involving asbestos product liability and extended warranty; and subject matter expertise in defending against certification of class in a state wide action against a major automobile insurer.

Team Leaders

Mario Torsiello

**Insurance Industry
Investment Banker**

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Mario Torsiello is a consultant working with FTI's Global Insurance Services practice.

Mr. Torsiello is a CPA and an insurance investment banking expert, advising companies and regulators on mergers & acquisitions, financings, capital strategies, valuation, restructuring, private placements and other transactions. He has developed an in-depth knowledge of all forms of financings in the debt and equity markets. Positions include:

- Torsiello Securities (and affiliates), as Founder, Sole Owner, President & CEO
- Founder Director and Member of Executive Committee of Alterra, a 3.0 billion insurer/reinsurer based in Bermuda.
- Dresdner Kleinwort Wasserstein, as a Managing Director & Head of the North American Insurance Practice
- Citigroup (and its predecessors Salomon Brothers and Salomon Smith Barney) from 1986 to 1999, as Co-Head of the Insurance Practice from 1997 to 1999.

Insurance investment banking experience:

- Co-manager of Allstate's IPO
- Sole manager of Farm Family's demutualization and IPO
- Co-manager of Allmerica Financial's IPO
- Co-advisor to Poe Financial Group
- Director of and various advisory projects for CIBC Insurance Group
- President & Director of INDC Group, a start-up internet provider of principally personal lines insurance products
- Strategic advisor to BCS Insurance Group, a captive insurer to the Blue Cross Plans
- Sole manager and board advisor in IPO/conversion of SCPIE, a reciprocal medical malpractice insurer
- Various roles in demutualization-IPOs of Equitable Life, John Hancock, AmerUs Group, MONY Group and ISMIE
- Initial placement agent and IPO co-manager for Max Capital in Bermuda
- Various equity offerings and other transactions for Bermuda companies including PartnerRe, RenaissanceRe, Scottish Re and CIFG