

GREEN ISLAND REINSURANCE TREATY

PROGRAM SUMMARY

Established in January of 1997, Green Island is a treaty reinsurance arrangement available to Marsh clients. Green Island enables captive insurance companies to diversify their underwriting portfolio. Through a pooling mechanism, participating captives 'share' their loss experience by transferring a portion of their risk in exchange for assuming the risks of other participants in the treaty. By accepting other participants' risks, participating captives can diversify their underwriting portfolio by writing unrelated premium.

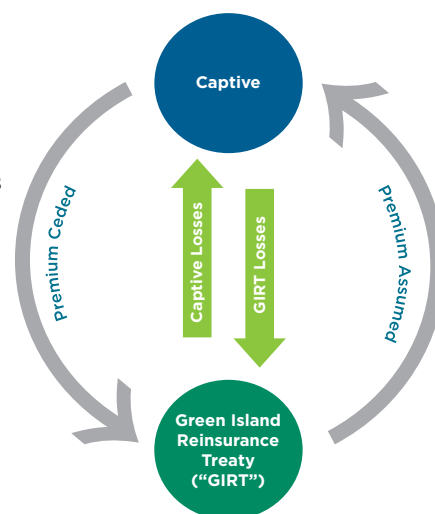
In addition to providing captives with risk diversification, participation in Green Island may result in *a reduction in the variability of expected losses* for individual members as each member will be writing a smaller portion of a large pool of losses. This potential benefit has been proven time and again for individual members over the life of Green Island. The reduction in loss variability produced by the pooling mechanism is designed to stabilize cash expenditures on losses assumed by participants.

GENERAL OPERATION OF THE PROGRAM

Green Island is based on the assumption and distribution of a low limit primary retention, typically allowing losses to be estimated with a high degree of confidence. Participants can currently cede to Green Island the following lines of coverage:

- Workers' Compensation & Employers Liability or Federal Employers Liability Act (FELA) Liability at a limit of \$150,000 per occurrence;
- General Liability, including products & completed operations and Auto Liability at a limit of \$100,000 per occurrence;
- Workers' Compensation or FELA are mandatory for participation while remaining lines are optional.

Participation in the program is governed by a reinsurance agreement detailing accounting for losses, premium determination, transaction timing, membership application, appointment of advisors, and other issues involving management of the treaty arrangement. The direction of the program is largely determined by the Participants' Committee and a number of sub-committees.



For illustrative purposes only.
(Source: Captive Solutions)

POTENTIAL ADVANTAGES OF THE GREEN ISLAND APPROACH

- **Source of Unrelated Risk**
Can provide a source of recurring third party business by transforming related risk normally retained by a company into unrelated risk.
- **Reducing the Variability of Claims**
By participating in the treaty arrangement, members may reduce the variability of expected losses without increasing the overall (expected) cost of risk.

- **No Additional Capital or Surplus Required / Lower Frictional Costs**

Captive owners have flexibility to structure the underlying program in a cost-effective way, including the use of self-insurance, deductibles, retrospective rating, or guaranteed-cost plans.

- **Transitioning from a ‘Humana Captive’ Structure**

As companies streamline their corporate structure and reduce the number of subsidiaries, they may seek to transition from a ‘Humana model’ captive strategy. IRS Revenue Ruling 2002-90 set the safe-harbor at 12 subsidiaries, with no one subsidiary accounting for more than 15% of the risk. Green Island may provide a suitable alternative structure that relies on unrelated risk as a positive factor in the test for status as an insurance company for US Federal income tax purposes.

- **Fewer Significant Collateral Concerns**

Green Island offers simultaneous accounting of premium payments and claims recoveries, so credit risk may be decreased and participants can invest captive funds prudently and with fewer restrictions.

PROVEN SUCCESS

Since its inception in 1997, Green Island has grown substantially and is the most successful facility of its kind. As of 2009, the treaty arrangement is made up of **16 member companies with estimated annual premiums totaling \$380 million**. Green Island has grown to a level that enables it to accept participants of various sizes, even those very large, while still typically providing significant amounts of unrelated risk.

OTHER MATTERS

By accepting other participants’ risks through Green Island, participating captives are left with **unrelated risk**. Unrelated risk is an element considered by the IRS when determining if a captive is an insurance company for tax purposes. IRS Revenue Ruling 2002-89 outlined a safe-harbor for captives writing at least 50% unrelated risk (providing that other key factors in the ruling are met).

With the recent implementation of FIN 48, companies are required as part of the preparation of financial statements to evaluate all transactions and make a determination of whether or not related tax benefits meet a “more-likely-than-not” recognition threshold (>50% certainty). If a position meets this threshold, a company would recognize for financial statement purposes the appropriate portion of the tax benefit that is likely to be realized upon ultimate settlement in its financial statements; the company would accrue interest and possibly penalties on the unrecognized portion of the tax benefit (the excess, if any, of the benefit claimed on its tax return over the amount recognized on its financial statements). The amount of the tax benefit to be recognized by each company will depend on each company’s individual facts and the degree of confidence related to the position. Disclosure of the details of the uncertain tax position in financial statement footnotes may be required.

One of the goals of Green Island is to provide members with substantial unrelated premium and risk diversification. Each member should make its own evaluation of whether its captive will qualify for Federal insurance company tax treatment. Marsh makes no representation or assurance that Federal income tax treatment as an insurance company will be achieved by Green Island participants.

CANDIDATES FOR GREEN ISLAND

In order to be considered for participation in Green Island, ideal candidates must demonstrate:

- Existence of an active captive OR willingness to form a captive;
- At least \$4 million in retained losses within the first \$150,000 layer of Workers' Compensation, FELA, General Liability and Auto Liability (WC only or lines combined);
- Financial strength of the participating captive and parent company;
- Strong risk management program with an excellent record on loss management and safety; and
- Loss and exposure data that supports development of credible loss estimates.

If you would like more information on Green Island, please contact [Donna Weber](#) in New York at 631-425-3207 or [Jill Husbands](#) in Bermuda at 441-297-9731

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