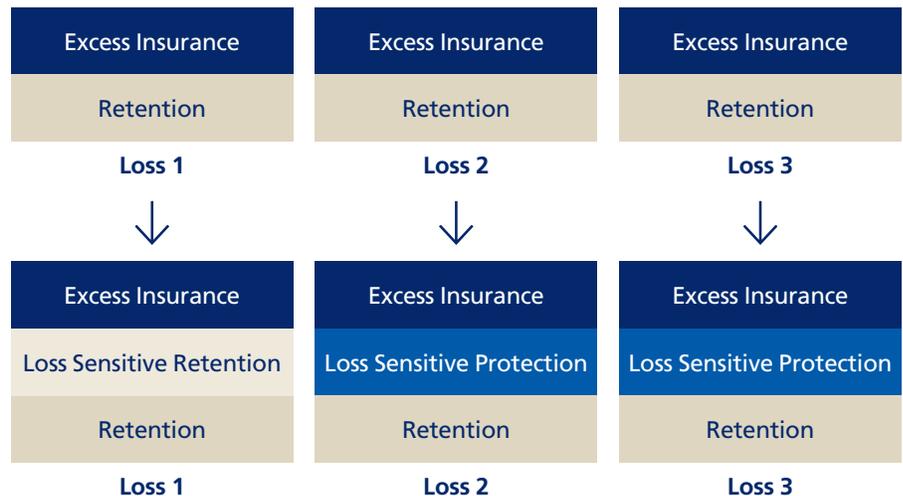


Loss Sensitive Risk Transfer Programs

For a number of large corporations, the traditional approach of buying guaranteed cost excess coverage above a retention or deductible may not be an optimal solution.

This is especially true for companies with volatile risk exposures such as construction, chemical products or professional liability. Loss Sensitive Risk Transfer Programs provided by Zurich's Strategic Risk Solutions Group (SRS) offer more economically efficient structures that allow insureds to participate in their own loss experience. By retaining more risk in such a controlled manner, the insured can save on premium, while helping to protect their balance sheet against worst-case scenarios.

Loss Sensitive Risk Transfer Programs can be used in a variety of contexts where a risk manager wants to hold more risk. In the example below, a traditional coverage structure is replaced by a Loss Sensitive Risk Transfer Program consisting of a first-loss retention with true risk transfer coverage for the second and third losses. Such a structure will cost much less than a traditional approach if losses are favorable.



Zurich SRS programs are very flexible. Potential coverages include Excess Casualty, Property and/or professional lines, stand-alone or on a combined basis. Coverage terms may be single-year or multi-year. Programs can be designed as direct insurance or as reinsurance of a captive.

Sample Loss Sensitive Buffer Layer Program

A Loss Sensitive Buffer Layer Casualty Program is a very common structure. Below is a simplified comparison of a Buffer Layer Program compared with an ordinary guaranteed cost buffer:

- \$5 million excess; \$5 million layer per occurrence layer with a \$15 million aggregate limit
- SRS Loss Sensitive Buffer Layer Program is guaranteed for three years, with an annual premium of \$3 million per year and return premium of up to \$6 million over the term if loss-free. The potential return premium is generally diminished dollar for dollar with claims paid.
- We compared this to a competing guaranteed cost premium that might be \$2 million per year.

Below are three potential loss scenarios for the Loss Sensitive program and a traditional guaranteed cost structure:

| Traditional Program | Scenario 1 | Scenario 2 | Scenario 3 |
|---------------------|-------------|-------------|--------------|
| 3-Year Claims Paid | \$0 | \$2,000,000 | \$15,000,000 |
| 3-Year Premium | \$6,000,000 | \$6,000,000 | \$6,000,000 |

| Loss Sensitive Program | Scenario 1 | Scenario 2 | Scenario 3 |
|------------------------|-------------|-------------|--------------|
| 3-Year Claims Paid | \$0 | \$2,000,000 | \$15,000,000 |
| 3-Year Premium | \$9,000,000 | \$9,000,000 | \$9,000,000 |
| Return Premium | \$6,000,000 | \$4,000,000 | \$0 |
| Net Premiums | \$3,000,000 | \$5,000,000 | \$9,000,000 |

| Savings vs. Traditional | \$3,000,000 | \$1,000,000 | (\$3,000,000) |
|-------------------------|-------------|-------------|---------------|
|-------------------------|-------------|-------------|---------------|

If the layer is claims-free or has limited losses, the SRS program provides significant savings. In the event of large losses, the customer will pay more, but ultimately both programs provide coverage against the bad scenarios.

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About Zurich Strategic Risk Solutions Group

Zurich's Strategic Risk Solutions Group, a part of Zurich's North America Commercial Insurance business unit, specializes in integrated and structured risk programs on a multi-year, multi-line basis. SRS programs are highly customized structures that can include both traditional and non-traditional risks, as well as risk financing and risk transfer, all in one efficient, long-term solution.

The Strategic Risk Solutions Group maintains an interdisciplinary team with expertise in property and casualty insurance, management liability, finance and law, with proven experience in combining multiple lines of insurance into highly individualized programs that meet the specific, often unique needs of today's corporate customers. Since 1997, the Strategic Risk Solutions Group has executed hundreds of transactions for virtually every industry and exposure type.

Our programs are being utilized by a new breed of risk managers who tend to be more financially oriented. These risk managers take a strategic view of risk and believe the enterprise risk insurance market offers a more efficient approach than the traditional method of buying multiple policies every year for every risk class.



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