OLD MUTUAL ALTERNATIVE RISK TRANSFER

CELL STRUCTURE - HOW DOES A CELL CAPTIVE WORK?

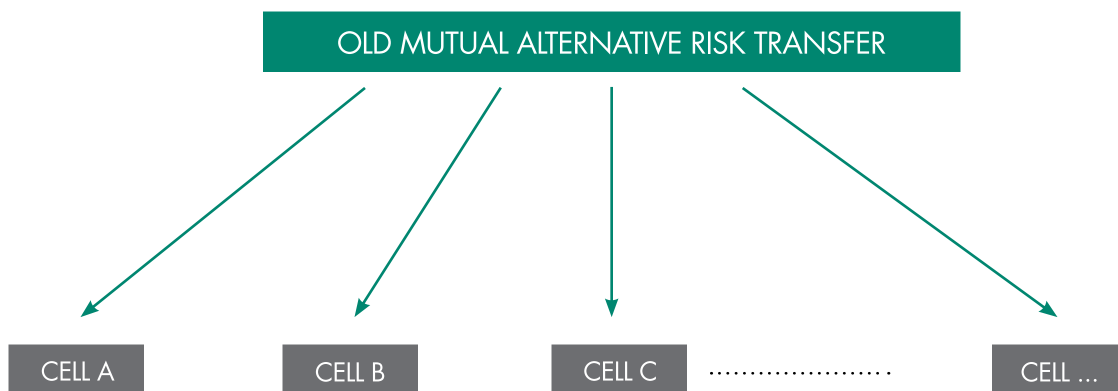
LEGAL STRUCTURE

A **cell captive** arrangement is where a company (participant) chooses to self-insure itself by owning a class of shares (to form a cell) in a special purpose vehicle insurance company.

This is achieved through an arrangement whereby a company purchases a class of **preference shares** from a registered insurer (such as OMART) to make a cell, which is a separate accounting unit within OMART appertaining to the management and administration of an insurance policy issued by OMART to the insured.

Each cell is **ring-fenced**, which implies that no cross-subsidisation is allowed and each cell is required to be individually sound and solvent. This further implies that, if one cell becomes insolvent, creditors will not be able to claim on any assets belonging to other cells.

The structure of the cell captive will be as follows:



A company may choose a first party or a third party cell arrangement.

A **first party cell** is an arrangement where the insured is the preference shareholder, its subsidiary or associated company to whom the insurance policy has been issued.

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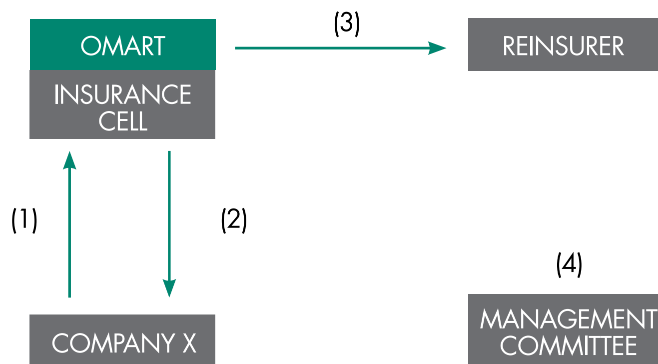
The first party cell will have the following structure:



(1) Company X pays a premium to OMART for the insured benefits.
(2) All claim amounts are paid from the cell.
(3) The level and types of reinsurance will depend on the risk appetite of Company X. Decreasing the level of reinsurance (assuming no other changes) increases the risk that the cell owner takes, thus increasing the potential for profits.
(4) OMART and Company X will set up a Management Committee to oversee the arrangement which will include representatives from OMART, Company X, and the reinsurer.

In a **third party cell**, the insured is a party other than the preference shareholder in respect of whom provides third party insurance in the instance of a preference shareholder.

Shareholder agreements set out the legal, accounting, administration and operational relationships between the cell owners and the cell captive. These relationships vary from cell to cell.

FLEXIBILITY

You may specify the extent to which you want OMART to provide support in managing your cell. So we could, for example, design your risk benefits, determine a premium for them, issue policies and manage claims on your behalf in return for a fee. Alternatively you could manage most of these services on your own. The result is therefore a flexible tailor-made solution to ensure your specific needs are met.

SHARE THE RISKS

If you are concerned about the amount of risk you want to carry, you can share that risk with Old Mutual who will carry some of the risk in turn for a portion of the premiums you earn. You may also decide to share the risk you carry in the cell with another insurance company external to Old Mutual. This sharing of risk with another party is called reinsurance.

PROTECTING YOUR INTERESTS

Your specific cell will be managed separately from the other cells so that your interests are protected at all times. Together with Old Mutual we will set up a management board that will help make decisions around your cell's business. Any profits that emerge will only be shared by the parties you agreed to enter into agreement with. So activities in other cells will not affect you.

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