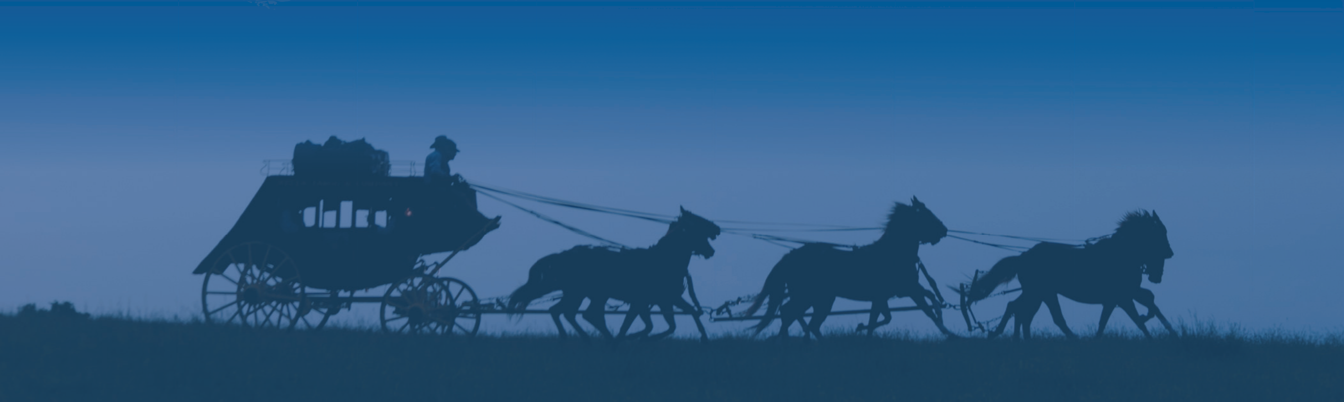
Corporate Trust Services

# Collateral services backed by the experience of Wells Fargo

## Captive and deductible, reinsurance, ILS, surety

wellsfargo.com/collateral-trust



# Collateral trust

A simple and cost-effective way to support captive and reinsurance obligations

Wells Fargo Corporate Trust Services understands the challenges and costs associated with posting collateral for your insurance and surety-related requirements. To effectively address your collateral needs, our industry-experienced, dedicated team is located across the U.S.

## What is a collateral trust?

Rather than posting a letter of credit (LOC) to guarantee programs such as surety, reinsurance, insurance-linked securities (ILS), corporate deductibles, captives, or self-insurance, a deposit of cash or cash equivalents can be made into a trust account. The party that would otherwise be the beneficiary of the LOC is named as the beneficiary of the trust.

## Benefits of establishing a collateral trust administered by Wells Fargo

- Eliminate associated LOC fees
- Grantor or obligator retains ownership of the asset
- Grantor retains the trust-generated investment income
- Eliminate potential credit encumbrances

## Why use Wells Fargo

- We leverage our diverse enterprise to deliver in-house services and customized investment options to help our clients meet their financial goals.
- Wells Fargo has an experienced team who works specifically on insurance and surety-related trusts.
- Our well-established relationships with cedents, reinsurers, ILS sponsors and investors, fronting carriers, and traditional corporate insurers facilitate a smooth and efficient set-up process.
- We have strong repeat referrals with most parties due to our strong relationships and dedication to them.
- The required tri-party trust agreement has been designed and used with many insurance carriers, greatly reducing the set-up time and any associated legal costs.
- Our team of administrators has been involved in the creation and administration of thousands of reinsurance, ILS, corporate insurance, and surety-related trusts.

### *Wells Fargo Corporate Trust Services*

As an industry-leading corporate trust provider, we offer a suite of products and services geared toward public and private companies, government entities, special purpose vehicles, and the banking, securities, and insurance industries.

# Trust programs

## Trusts that fit your financial needs

| Program advantages | Deductible trust | Captive trust | Surety trust | Reinsurance/ ILS |
|---|---|---|---|---|
| Usually less expensive than an LOC | ☑ | ☑ | ☑ | ☑ |
| Widely recognized and accepted form of collateral | ☑ | ☑ | ☑ | ☑ |
| Trust's income generally belongs to the depositor | ☑ | ☑ | ☑ | ☑ |
| Eliminates potential encumbrances on the corporation's credit, generally created by LOCs | ☑ | ☑ | ☑ | |
| Does not need annual renewal (unlike most LOCs) | ☑ | ☑ | ☑ | ☑ |
| Trust assets generally remain on the depositor's books | ☑ | ☑ | ☑ | ☑ |
| The draw-down characteristics are similar to an LOC | ☑ | ☑ | ☑ | ☑ |
| Easy to set up and dissolve | ☑ | ☑ | ☑ | ☑ |
| Can often replace multiple LOCs posted to the same carrier | ☑ | ☑ | ☑ | |
| Can be funded with the same cash or cash-equivalent that would collateralize the LOC | | | | ☑ |

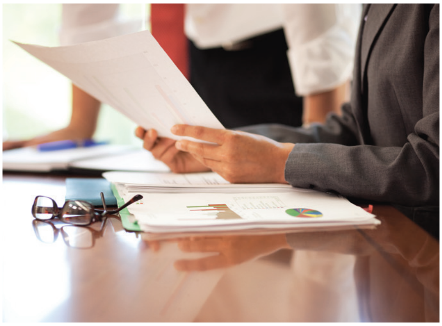
### What is a surety program?

In many business transactions where a financial guarantee is required, surety bonds are the preferred mechanism. Corporations around the world rely on surety bonds as a way of demonstrating to their business partners, government regulators, insurance carriers, and various judicial systems that they will be able to meet their ongoing financial obligations to their respective counterparts. In recent years, surety bonds have become both increasingly difficult to obtain and considerably more expensive. In many situations, the surety providers ask for collateral for the bond to protect themselves from any potential losses. In selecting collateral for the bond, it is substantially easier and more efficient to establish a trust than attempt to acquire an LOC.

### What is a reinsurance program?

Most reinsurance transactions require a financial guarantee to ensure that the reinsured parties will be paid pursuant to their insurance agreements.

While various types of collateral mechanisms have been used over the years, a reinsurance trust with Wells Fargo (also known as a Reg. 114 trust) is often the most cost-effective and efficient mechanism for fulfilling these collateral obligations.

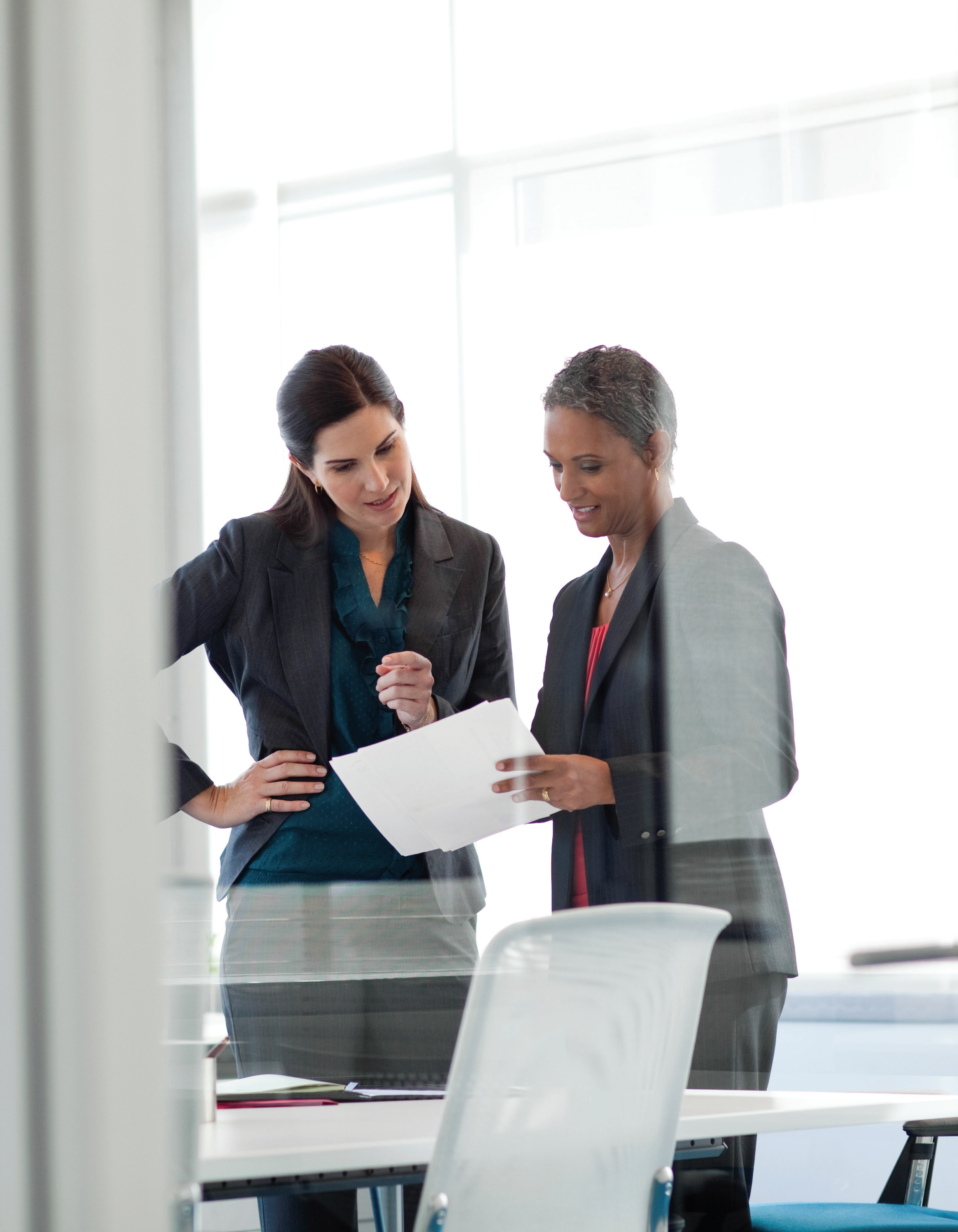




## What is a deductible program?

Insurance carriers generally require that corporations involved with insurance "deductible programs" demonstrate that they will always be able to cover their "loss pick" (the sum of their anticipated deductible payments for the upcoming year), as well as any previously unpaid claims from previous years. Historically, corporations have posted LOCs to their insurance carriers to demonstrate their ongoing ability to pay claims. LOCs can appear as contingent liabilities on a corporation's balance sheet.

## What is a captive insurance program?

Regulators and insurance carriers generally require that captive insurance companies demonstrate their ongoing ability to pay insurance claims. The National Association of Insurance Commissioners (NAIC) and insurance carriers have strict rules as to how captives can demonstrate their ability to pay such claims. Since the captive usually needs to post some form of collateral, a captive trust is a great option.



## What are insurance-linked securities (ILS)?

ILS transactions are not reinsurance, but they are very similar. The reasons for and the nature of the collateral required for ILS transactions are largely the same as those for reinsurance. While reinsurance programs need collateral to cover both regulatory and credit risks, ILS transactions require collateral largely for credit risk. Typically, the sponsors of the transaction recognize the possibility that they might be responsible for the entire program, so they ask for collateral.

Since the sponsors of ILS transactions are more often than not also the cedents on traditional reinsurance transactions, ILS transactions employ a similar trust document as that used for reinsurance transactions. Therefore, for ILS transactions, both the rules surrounding the use of a trust and the types of acceptable collateral within the trust are nearly identical to those of reinsurance programs.

Use of an ILS trust with Wells Fargo in lieu of LOCs will create benefits for the investor while not subjecting the sponsor to additional risk. Wells Fargo has a dedicated trust team that excels at establishing and maintaining such trusts.

Our dedicated collateral trust team has experience with reinsurance trusts for structures such as traditional reinsurance, sidecars, contingent capital, captives, industry loss warranties, and other ILS transaction types.

Use of a collateral trust through Wells Fargo is contingent upon carrier acceptance of this alternative. Clients interested in this alternative should check with their carrier to see if this is a viable alternative for their collateral requirements.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