

\*\* JOB STATUS REPORT \*\*

AS OF DEC 19 2000 14:44 PAGE. 01

AIG REINS. DIV. 9/99

JOB #027

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**AIG-REINSURANCE**

# Fax

To: <i>F. Douglas</i>	From: Christian Milton
Fax: <i>747-8760</i>	Pages: <i>10 (including cover)</i>
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# The Cologne Re of Dublin.

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This is the General Ac Demand  
kt HRC talker to me  
WTS sent*

Telefax

To: Mr Christian Milton  
American International Group  
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From: John Houldsworth

Date: 18.12.2000  
Milton.doc

Number of pages (incl. coversheet): 9

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Kjirgan Moisech (German)  
Chris Garand (American)  
Douglas Bonnar (British)  
John Knogh

Please see attached.



# The Cologne Re of Dublin.

*Affiliated with the World's oldest Reinsurance Company*

The Cologne Re of Dublin - 1 George's Dock - I.F.S.C. - Dublin 1 - Ireland

Dublin,  
17.12.2000  
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Hans-Peter Dehnbil (German)  
Jürgen Maich (German)  
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Douglas Borrer (British)  
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Dear Chris,

**Re: Our Aggregate Liability Adverse Loss Development Cover**

I am writing further to your various conversations in respect of the above with Rick Napier of our parent company in Stamford. I hope that I can give you a little more background on the proposal we hope that you will be able to help us with.

Fundamentally we are seeking to achieve two primary objectives. Firstly to reduce the reserving "leverage" in our local balance sheet and secondly to smooth any unexpected adverse loss development in our local statutory income statements (as opposed to our US GAAP consolidation packs). There are a number of other minor benefits and costs in the structure proposed but the above are the headline objectives.

The contract structure we have in mind (I have attached a draft slip for discussion purposes) serves our purpose at a cost we believe to be appropriate to the benefit and risk involved for our reinsurer. To anticipate one question you may ask it is important to note that our local statutory accounting here follows similar risk transfer rules to the US but does not differentiate between retrospective and prospective contracts.

In relation to the risk inherent in the underlying portfolio we are willing to make the following representations at this time:-

- 1) The current stated reserves plus accumulating interest will, we believe, be adequate to meet the maturing liabilities.
- 2) The current stated reserves are based in best current information on each portfolio.

**The Cologne Re of Dublin.**  
Cologne Reinsurance Company (Dublin) Ltd.

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17.12.2000

**DRAFT**

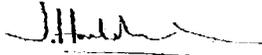
- 4) The underlying portfolios are not "cat" exposed and should under all normal circumstances exhibit little volatility.

The reason we are making these representations reflects, I trust as Rick has mentioned, that it is very important to us that confidentiality in respect of the underlying client specific portfolios is maintained more so than in any normal reinsurance relationship. We will of course make limited records available for initial underwriting purposes but would not expect these to be withheld for public review in your offices. The reinsurance agreement will provide that access to our records by AIG is subject to a confidentiality agreement and access will only be provided to those AIG officers or agents similarly bound by confidentiality agreements.

I hope that the above gives you a feel for what we have in mind and look forward to any comments you may have in respect of either my letter or the attached "discussion" draft slip.

I hope that on further review AIG will be able to support this cover and look forward to working together over the next few years.

Yours sincerely,



John Houldsworth,  
Chief Executive Officer.

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## Draft for Discussion Purposes

**Reinsured:** Cologne Reinsurance Company (Dublin) Limited

**Type:** Loss portfolio transfer Agreement

**Term:** Continuous commencing 12:01a.m., Central European Time, 1/12/2000, until all liability hereunder has been discharged.

**Territory:** As detailed under the attached schedule of original Reinsurance contracts.

**Business Covered:** Original Reinsurance Contracts or other evidences of liability (whether written or oral) heretofore issued covering in respect of business written as detailed under the attached schedule.

**Limit:** The Reinsured obligates itself to cede to the Reinsurer and the Reinsurer obligates itself to accept as reinsurance from the Reinsured a 100% interest in the Net Retained liability of the Reinsured in respect of the Business covered, subject however to an overall limit of liability to the Reinsurer equal to USD 600m.

**Reinsurance Premium:** A reinsurance premium of USD 500,000,000 of which 98% shall be retained within an experience account by the Reinsured.

**Reporting and Accounts:** Within 90 days of the end of each calendar year, the Reinsured shall prepare an account for the Reinsurer showing:

- A) Outstanding reserves, including allocated loss adjustment expenses at the beginning of the year, plus
- B) The sum of reserves including allocated loss adjustment expenses increased or established during the year, minus
- C) Claims and allocated loss adjustment expenses paid during the year, equals
- D) Outstanding reserves, including allocated loss adjustment expenses at the end of the year.

The Reinsurer shall upon receipt of the account, authorize the Reinsured to draw payment from the experience account for the balance due in respect of claims paid during the year. In the event that the balance within the experience account is insufficient to satisfy the obligation of the Reinsurer, then payment shall be made within 90 days by the Reinsurer of the amount owed in excess of the balance in the experience account.

## Draft for Discussion Purposes

**Definition:**

- A) The term "Ultimate Net Loss" as used in this Agreement shall be understood to mean the sum actually paid or payable by the Reinsured in settlement of losses for which it is liable, such losses to include expenses of litigation and any and all other loss expenses of the Reinsured except for office expenses and salaries of the Reinsured's officials. Any salvages and recoveries, including recoveries under any reinsurances which inure to the benefit of this Agreement, whether collected or not, are to be first deducted from such loss to arrive at the amount of liability, if any, attaching hereunder.

Nothing in this definition shall be construed as meaning that losses are not recoverable hereunder until the Ultimate Net Loss to the Reinsured has been finally ascertained.

- B) The term "Net Retained Liability" as used in this Agreement shall be understood to mean, and this Agreement shall only apply to, that portion of any insurance or reinsurance covered by this Agreement which the Reinsured retains net for its own account and in calculating the amounts of loss hereunder, only loss or losses in respect of that portion of any insurance or reinsurance which the Reinsured retains net for its own account shall be included.

It is understood and agreed that the amount of the Reinsurer's liability hereunder in respect of loss or losses shall not be increased due to the Reinsured's failure to retrocede in accordance with its normal practice, nor by reason of the inability of the Reinsured to collect from any other Reinsured, whether specific or general, any amounts which may have become due from them, whether such inability arises from the insolvency of such other Reinsurer or otherwise.

- C) The term "Original Reassured" as used in this Agreement shall be understood to mean the insurance or reinsurance company to which the Reinsured issued an Original Reinsurance Contract.
- D) The term "Original Reinsurance Contract" as used in this Agreement shall be understood to mean all binders, policies, certificates, agreements, treaties, bonds or contracts or reinsurance or retrocession authorized by the Reinsured to Original Reassured's under the same Reinsurance Form covering the same liability (whether issued in one layer or more than one layer).
- E) The term "Reinsurance Form" as used herein shall be understood to mean the type of Liability reinsurance afforded.

**Exclusions:**

As contained in the Reinsured's Original Reinsurance, without additional limitations hereunder.

## Draft for Discussion Purposes

### Experience Account:

At inception, the Reinsured shall establish a funds withheld experience account into which shall initially be placed the withheld portion of the reinsurance premium and from which the Reinsured shall make claim payments hereunder. Annually the Reinsured shall prepare a status report on the experience account showing:

#### Credit Items

- A) Credit balance brought forward from the previous statement.
- B) Withheld premiums equal to 98% of reinsurance premiums due.
- C) Interest on the positive balance within the account calculated at a rate of 3% per annum on the beginning balance brought forward from the previous statement.

#### Debit Items

- A) Claims paid during the year.
- B) Any settlements made as commutation of claims, loss adjustment expenses or other liabilities hereunder.

### Cancellation:

This Agreement may be cancelled by the parties hereto:

- 1) Immediately by giving the other party notice:
  - A) If the performance of the whole or any part of this Agreement be prohibited or rendered impossible de jure or de facto in particular and without prejudice to the generality of the preceding words in consequence of any law or regulation which is or shall be in force in any country or territory, or if any law or regulation shall prevent directly or indirectly the remittance of any or all or any part of the balance of payments due to or from either party.
  - B) If the other party has become insolvent or unable to pay its debts or has lost the whole or any part of its capital.
  - C) If there is any material change in the ownership or control of the other party.
  - D) If the country or territory in which the other party resides or has its head office or is incorporated shall be involved in armed hostilities with any other country whether war be declared or not or is partly or wholly occupied by another power.

## Draft for Discussion Purposes

- E) If the other party shall have failed to comply with any of the terms and condition so this Agreement.

All notices of termination which the Reinsured shall have the right to issue in accordance with any of the provisions of this paragraph shall be by Telex, Facsimile or Registered Mail and shall be deemed to be served upon dispatch, or, where communications between the parties are interrupted, upon attempted dispatch.

- 2) By the Reinsured giving 90 days notice at any time in writing of its intention to cancel this Agreement.

All outstanding losses and other reserves, if any, for business covered under this Agreement, shall be commuted on the date of cancellation upon payment to the Reinsured of the amount equal to the credit balance under the experience account at the date of cancellation. Such payment shall constitute full and final release of all liabilities of the Reinsurer under this agreement.

**Administration  
Fee:**

TBA payable on TBA and annually on 1<sup>st</sup> January thereafter until termination.

**General  
Conditions:**

Currency Conversion: All balances shall be converted to USD at the rate of exchange used in the Reinsurer's books.

Offset Clause

Errors and Omissions Clause

Access to Records Clause

Insolvency Clause

Arbitration Clause (English law).

Inspection of Records: *The Reinsured retains the right to protect the confidentiality of the underlying reinsurance covers and reserves the right to inspection of records. However inspection by an independent third party as approved by the Reinsured will be arranged if requested.*

Change in underlying reinsurance contracts: *The Reinsured retains the right to manage the run off of the underlying reinsurance contracts without detailed disclosure to the Reinsurer. The Reinsured will however act in good faith at all times.*

Ultimate net loss clause: This reinsurance shall have the benefit of all underlying reinsurances inuring to the benefit of the underlying reinsurance contracts.

**Wording:**

To be agreed.

**Draft for Discussion Purposes**

**Reinsurer:**

**Ref:** \_\_\_\_\_ **By:** \_\_\_\_\_

**Dated:** \_\_\_\_\_

**Placement Agreed**

**Reinsured: Cologne Reinsurance Company (Dublin) Limited**

**Ref:** \_\_\_\_\_ **By:** \_\_\_\_\_

**Dated:** \_\_\_\_\_

Draft for Discussion Purposes

Appendix A:

Schedule of underlying reinsurance contracts

Contract	Country of Origin	Current reserves in USD
Contract A	USA	254,000,000
Contract B	Germany	63,243,000
Contract C	USA	69,323,000
Contract D	Norway	25,734,000
Contract E	USA	36,728,000
Contract F	Australia	60,416,000