



PROVIDING SPECIALTY COVERAGES FOR EMERGING RISKS
THROUGH INNOVATIVE AGENTS AND BROKERS

Contractual Obligation (ASSUREtrust) Program Description

This description of our Contractual Obligation (ASSUREtrust) program has been created as a framework of discussion concerning placement of a Contractual Obligation (ASSUREtrust) Insurance Policy for your Guarantee program. The purpose of this is to generate discussion and feedback on potential concepts. The terms, limits, qualifications and other factors discussed in this are presented purely for the purpose of providing illustrated examples, and are all subject to discussion and change. This does not constitute a proposal, indication or quotation of insurance, whether for the Contractual Obligation (ASSUREtrust) Insurance Policy, other insurance policies or any other services.

Background:

Before discussing potential insurance solutions for your Guarantee program, it may be helpful to illustrate, by examples, how our Contractual Obligation Program can work. The development of this policy form took into consideration the following potential business models:

- PKI companies
- ISPs
- ASPs
- Managed Service Providers
- Computer Security companies
- Online trust and fraud reduction companies
- Electronic Exchanges
- Credit Card Co's that enable electronic transactions

However, we expect to entertain risks that fall outside these areas but have an insurable guarantee.

One of the greatest barriers to the adoption of e-Business solutions and processes has been user uncertainty respecting the workability of these solutions and processes. To remove this uncertainty, e-Business companies have begun to offer users warranties or other contractual promise plans, backed by payment of money, to adopt these solutions and processes. An early example of such a plan was the VeriSign NetSure Protection Plan, which offered users of VeriSign's digital certificates the opportunity to purchase a warranty scaled by payment amount to the type of certificate used, i.e., \$1,000 for low level certificates, up to \$250,000 for commercial server certificates. More recently, an Atlanta based ISP offered an extended warranty plan that was also backed by insurance. The concept was built around "connectivity" and 24/7 availability. This ISP uses the sales motto "if you go down, we pay up".

More e-Business users and solution providers have realized that a warranty or promise plan, backed by payment of money, is a powerful tool to draw users to their products or services. Insurance coverage will "back" the underlying warranty or promise statement. It acts like "assurance" (drawing customers to use their services), rather than insurance (protection from loss).



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Guarantee Example:

Company A would like to provide a Transaction Performance Guarantee for transactions between its subscribers which take place within your system. Company A advised us that a basic Transaction Performance Guarantee might provide users with a basic level of protection of up to \$5,000 for certain losses, and might provide Company A users a higher Transaction Performance Guarantee of up to \$50,000

for transactions taking place within identified exchanges affiliated with Company A. Amounts payable under the Transaction Performance Guarantee might be based on the chart below:

Losses Resulting from:	Amount Payable by Company A
Failure of another Company A subscriber to accept delivery	Loss of gross profit
Failure of another Company A's subscriber to make payment after acceptance of goods	Sales Price
Failure of another Company A's subscriber to make delivery	The lesser of: 1. The cost incurred to obtain replacement goods in the market; or, 2. The party's resulting loss of gross profits

INSUREtrust (and its reinsurers) will need to carefully review the types of damages payable under any Guarantee, and such damages may be different than the types listed above.

The Guarantee will be a part of the user agreement. We understand that you will draft a detailed warranty language that will set out the particulars of the Guarantee beyond issues of damages payable. We understand that the Guarantee will be offered to all customers/subscribers, and that these customers/subscribers will agree to: (1) conduct business with other users in good faith and in accordance with properly executed sales agreements with other parties; (2) transfer any rights to recover damages from other parties to the extent of any payment made by you under the Guarantee; and, (3) permit you to retain the right to suspend or terminate any user from your system for a failure to perform under agreements with other users; (4) execute a user agreement.

We understand that affiliated exchanges will also have to execute an agreement with you to be part of the network. This agreement, for example, would require these exchanges to suspend or terminate users from the exchange at your request for a failure to perform under agreements reached with other exchange users or for any violation of the user agreement.

We understand that only qualifying transactions will fall within the Guarantee, i.e., only those transactions which meet the following criteria:

- All parties to the transaction must be your customers/subscribers;
- The transaction must be conducted in accordance with the rules of your company, of any affiliated exchange and of the user agreement;
- The user must qualify the other party(-ies) in the transaction using your system; and,
- The user must have had a reasonable belief that the defaulting party was qualified based on a minimal "score" or qualifying criteria (yet to be determined) at the time the transaction was executed.

We believe the warranty must apply to all users and all permissible transactions. Due to the insuring concept of "adverse selection," if coverage is placed, we are unlikely to permit your users to select which transactions to carry the guarantee, and the level of guarantee that particular transactions would carry.



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We understand that losses resulting from some types of transactions will be excluded under the Guarantee. This may include the following and may include others as well:

- futures and options contracts
- transactions between affiliated, subsidiary or related entities;
- illegal transactions;
- failure of the a buyer to accept delivery based on the buyers reasonable belief that the goods did not conform to the agreement;
- Any failure resulting from delays in customs, or from the import/export of goods not being permitted by customs officials;
- Failure of another party to perform under agreement for any reason not reasonably under the other party's control.
- Bankruptcy

INSUREtrust's own underwriting guidelines require that transactions involving gambling, alcohol, pornographic material and any "vice"-related or unlawful subject matter must be excluded from the list of qualifying transactions. Claims for mistakes by data licensors may also be excluded as a covered cause of loss. After further discussions, we may agree to exclude certain other causes or transactions. Furthermore, some types of losses would be excluded under the INSUREtrust Contractual Obligation (ASSUREtrust) Insurance Policy, if such a policy is placed for you. These **EXCLUSIONS** apply to losses for or arising out of the following (note—the term **Obligation** below refers to the warranty portions of the Guarantee, and **Incident** refers to a breach of or failure to fulfill an **Obligation**):

- A. Work or failure to perform work by the **Named Insured**, its agents or employees outside of the scope of an **Obligation**;
- B. Any negligent act, error or omission provided, however, that this exclusion does not apply to any **Incident**;
- C. Any **Obligation**, duty or liability to any person or entity other than the **Contractee**;
- D. Any fraudulent, dishonest or criminal acts of the **Named Insured**, its agents or employees;
- E. The withdrawal, inspection, repair, recall, replacement or loss of use of the **Named Insured's** products or work completed by or for the **Named Insured** or of any property of which such products or work form a part, if such products, work or property are withdrawn from the market for any reason;
- F. Loss of use, or incidental, consequential or indirect damages, unless such damages are expressly permitted to be recovered by the language of the **Obligation**;
- G. Fines, penalties, punitive damages, exemplary damages or treble or multiplied damages in whatever form assessed;
- H. Product liability, including liability arising out of implied warranties of merchantability, implied warranties of fitness, or strict liability, provided, however, that this exclusion does not apply to breach of any warranty contained in an **Obligation**;
- I. Any *ex gratia* or other payment made by the **Named Insured** for reasons other than compensation for damages (i.e., as a favor or indulgence) or otherwise not covered by the



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Obligation, unless the prior written authorization of the **Company** has been given for such payments. This exclusion does not apply to any **Claim** which the Company consents to pay as an *ex gratia* payment under Section III.D. of this policy;

- J. Bodily injury, sickness, disease, or death, including mental illness or distress;
- K. Damage to or destruction of any tangible property, including loss of use thereof (not including electronic data);
- L. Power outage, explosion, fire, flood, earthquake, natural or weather-related cause, act of God, or war, riot or insurrection;
- M. Any **Suit** or action brought by, on behalf of or with the assistance of any:
 - 1. **Named Insured**; or
 - 2. Any person or entity:
 - a. which is to any extent owned by or controlled by any **Named Insured**;
 - b. which to any extent owns or controls any **Named Insured**;
 - c. which is affiliated with any **Named Insured** through any common ownership or control; or
 - d. in which any **Named Insured** is a director, officer, partner, or principal stockholder.
- N. The actual, alleged, or threatened discharge, dispersal, release, or escape of pollutants; or any direction, request, or voluntary decision to test for, abate, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants, nuclear material, or nuclear waste.

Pollutants include, but are not limited to, any solid, liquid, gaseous, or thermal irritant or contaminant, including without limitation smoke, vapor, soot, fumes, acids, alkalis, chemicals, odors, noise, lead, oils or oil products, radiation, asbestos or asbestos-containing products, waste, and any electric, magnetic, or electromagnetic field of any frequency. Waste includes, but is not limited to, material to be recycled, reconditioned, or reclaimed;
- O. Discrimination, sexual or workplace harassment, wrongful termination of employment, wrongful discipline or demotion, employment-related defamation, employment-related misrepresentation, failure to provide for or enforce employment-related policies or procedures, retaliatory employment-related treatment, violation of any person's employment-related civil rights or rights of privacy, or violation of any statute, rule, regulation, or common law related to any of the foregoing;
- P. Advertising, publicity or promotion of the **Named Insured's** goods or services;
- Q. Providing any service that can only be provided by a licensed professional, including (but not limited to) medical, legal, accounting or engineering services. This exclusion does not apply to the registration, issuance or management of digital certificates or digital signatures pursuant to any state or federal laws which require licensure to register, issue or manage digital certificates or digital signatures.;



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- R.** Any actual or alleged failure, malfunction or inadequacy of:
1. Any of the following, whether belonging to any **Named Insured** or to others:
 - a. Computer hardware, including microprocessors;
 - b. Computer application software;
 - c. Computer operating systems and related software;
 - d. Computer networks;
 - e. Internet;
 - f. Telecommunication networks;
 - g. Microprocessors which are not part of any computer system; or
 - h. Any other computerized or electronic equipment or components; or
 2. Any other products, and any services, data or functions that directly or indirectly use or rely upon, in any manner, any of the items listed in subparagraph 1. of this exclusion

due to the inability to correctly recognize, process, distinguish, interpret or accept one or more dates or times, including but not limited to year 2000; or
- S.** Any advice, consultation, design, evaluation, inspection, installation, maintenance, repair, replacement or supervision provided or done by the **Named Insured** to determine, rectify or test for, any potential or actual problems described in exclusion R. above.
- T.** Any excluded loss or cause of loss under the (insert name) User Agreement.

Any exclusions would need to be incorporated into the Guarantee. Additional exclusions may need to be added after INSUREtrust learns more concerning the scope and details of your Guarantee program.

We usually expect that the Guarantee will require the user to: (1) make all efforts to complete the transaction in good faith, which will include permitting the other party to make incidental changes to the transaction contract after it has been executed or making other reasonable concessions, with the permission of the other party; (2) report all claims to you promptly after the expiration of a mandatory waiting period which requires the injured party to wait a minimum of 15 days after the other party has failed to perform; and (3) report all claims within 90 days of the other party's failure to perform. You intend to require claims for loss by your customer/subscribers to be made within 90 days after the failure to perform. We understand that you will retain the right to terminate the Guarantee at any time upon 15 days notice.

Contractual Obligation (ASSUREtrust) Insurance Policy:

The Contractual Obligation (ASSUREtrust) Insurance Policy will be designed to indemnify you for all losses in excess of a retention (deductible per loss) incurred by you for payments to your users under the Guarantee, subject to other policy exclusions and limitations. It is our intent that you will not be permitted to pass this deductible along to your users who suffer losses under the Guarantee. The insurer will only be obligated to indemnify you for the amount above the deductible that you actually pay to your user.

The following are some possible limits, which are used for discussion purposes only. If coverage is ultimately placed, the actual limits and other terms and conditions may be different.



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Policy Aggregate Limit of Liability: \$1,000,000+ (depending on availability, need and cost)

-- Guarantee

Limit of Liability Per Each Claim /Aggregate: \$100-\$250,000

- Per Claim Deductible: \$500-\$50,000

Minimum Premium

If INSUREtrust is able to place coverage for you, there will be a minimum earned premium that will be fully earned once coverage is bound. This means the policy premium will be no less than this minimum premium or the amount calculated based upon actual exposures reported to us on a monthly basis, whichever is greater. If transactions generate less than the minimum annual premium, we will collect the minimum premium at policy inception, and it will be fully earned (meaning non-refundable even if cancelled before the end of the policy period). The rates and exposures are to be determined.

Deposit Premium

Based on the insured's estimate of exposures to be insured under the policy, a premium will be promulgated. This premium will be charged up front as the Deposit Premium. Sometimes the Deposit and Minimum premiums are the same. In no case is the Minimum Premium greater than the Deposit Premium.

Ultimate Premium:

If actual exposures, as reported on a monthly basis, are in excess of those used in the estimate upon which the Deposit Premium is calculated, additional premium will be charged. You will be advised in advance as to what rate will be charged for each exposure. The exposure units are called the Basis of Premium.

Basis of Premium

INSUREtrust will also need to determine a basis by which premium will be charged, which will involve obtaining detailed projections of business from you. For example, in the context of digital certificates, INSUREtrust typically bases premium on a "per certificate" charge, subject to minimum earned premium (see above), and requires detailed projections of the number of certificates to be issued. Similarly, INSUREtrust needs to determine an "exposure" basis to charge you for premium (i.e., per new user, per transaction, annual sales or volume etc), and to determine whether your business model will generate sufficient activity to justify placement of a Contractual Obligation (ASSUREtrust) Insurance Policy.

Monthly Reports

If coverage is placed, you will likely be required to submit a monthly report to the underwriters and/or the insurance carrier of new exposures during the prior month. The issue of what constitutes a new exposure will need to be determined in discussions between INSUREtrust and you, and depends on the manner in which premium is charged (see above). Along with this report, you would be required to submit any additional premiums due.

Claims

Claims handling procedures will need to be determined in conjunction with the insurance carrier and INSUREtrust. Possible options may include you being responsible for handling claims with each claimant, in which case you would need to obtain consent from INSUREtrust prior to payment to the customer. Another option might be for you to retain a Third Party Administrator ("TPA"), approved by the insurer, to handle claims at your expense. These options are presented for discussion only, and the insurer shall make the ultimate determination of how claims shall be handled.



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If you are charged with handling claims (see above), you would also be required to submit a list of claims paid on a monthly basis, and would likely be required to provide documentation supporting each claim. Such documentation would include, but not be limited to:

1. A copy of the transaction record, including any written agreement;
2. The original notice of claim submitted by the claimant;
3. A summary of findings signed by the claims investigator;
4. A release acknowledging payment under the Guarantee and releasing you of any further obligation.

Risks:

You should be aware that there are numerous risks in attempting to set up and maintain such a program. These risks include, but are not limited to:

1. Credit Risk: Under the Guarantee program, you may be legally responsible for the payment of all claims. The Contractual Obligation (ASSUREtrust) Insurance Policy simply **Indemnifies the Insured** for covered Claims subject to the policy's terms, conditions and limits, but does not pay claims directly to users. If the insurer is unwilling or unable to pay due to insolvency, exhaustion of limits of insurance by payment of claims, or any other reason, you may be exposed to significant financial hardship for payment of Guarantee claims;
2. Market Risk: Should you discontinue the Guarantee program as the result of the cancellation of supporting insurance policies or any other reason, such action may be negatively perceived by your customers/subscribers, potential customers/subscribers, investors, and others, leading to losses to you;
3. INSUREtrust, you, the insurer and the reinsurers need to reach an agreement on the Guarantee's warranty statement and supporting terms if it is to be covered under the Contractual Obligation (ASSUREtrust) Insurance Policy. These parties may or may not reach an agreement on these terms;
4. INSUREtrust, the carrier or the reinsurers may not approve placement of the Contractual Obligation insurance policy for your program, in the exercise of their underwriting discretion;
5. INSUREtrust may decide not to place the Contractual Obligation (ASSUREtrust) Insurance Policy for your program because it will not generate the capacity of premium needed to support the insurance policy;
6. Reinsurers may limit the number of Contractual Obligation (ASSUREtrust) Insurance Policies which INSUREtrust may issue, and as noted, INSUREtrust is already in the process of placing such coverage for larger entities whose programs may generate more premium than your program.

Fees Required

Underwriting fee:

The following is applicable to the Contractual Obligation Insurance (ASSUREtrust) and no other insurance from INSUREtrust. In most cases the insurer or insurers involved will require that other forms of insurance be obtained from them as well. In particular, errors and omissions coverage is often required.

INSUREtrust requires an underwriting fee from you prior to moving forward with this project. We realize that underwriting fees are not a standard feature of traditional insurance policies, but because this is a non-traditional, highly specialized insurance program, the underwriting process requires a significant amount of time, effort and expense. This fee is needed to cover INSUREtrust's time in understanding and analyzing the risks faced by your model, and (if these risks are acceptable) presenting this program to overseas reinsurers. However, if we are unsuccessful in obtaining a quotation for the placement of the Contractual



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Obligation policy, we will refund 1/2 of the fee minus INSUREtrust's out of pocket expenses which include the cost of outside legal advice and a technical assessment. This retained portion of the underwriting fee is not refundable, if Contractual Obligation (ASSUREtrust) coverage is not placed for any reason other than declination by our insurer. So, if you change your mind after retaining us or do not provide full and timely cooperation in putting together the necessary information, we will retain the entire fee. This underwriting fee is not applied to the minimum premium, or any other premiums developed as part of the program.



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Risk Assessment fee:

Every risk seeking insurance for Contractual Obligation Insurance will be required to undergo an independent technical assessment of their ability to fulfill the obligation under the guarantee. Insurers are unlikely to approve the risk if the assessment comes back unsatisfactory. It is important to note that insurers will not accept a risk that has the likelihood of a loss. They are interested in risks where the insured desires insurance as a marketing edge. The insured's intention should be to transform sales conversations from one of explaining their technology and solution to one of, "we can guarantee that this works". They will depend upon the assessment as reassurance that no losses are likely. The assessment fee is non-refundable.

Future Steps

Exchange of information:

Upon receipt of the underwriting fee, the next step will be to obtain more specific terms concerning the terms of the Guarantee, initially analyze the risks, discuss the basis of premium to be charged, and examine other relevant underwriting details with you.

We will also require the following:

A completed application form.

Copy of financials and business plan.

Legal review of contracts, policies, procedures and guarantee

Meeting with potential insurers:

We will then arrange a meeting with potential insurers, most likely Lloyds of London. You will be invited and encouraged to attend this meeting to assist us in presenting your business risk.

Within a short time after this meeting we will hear back as to whether or not the insurer is willing to move forward toward a final quote as well as an initial estimate of the premiums.

Risk Assessment:

Should you decide to move to the next step we will arrange for a technical assessment of your risk. A separate fee will be collected for this phase and a schedule of the activities will be presented. It will also be necessary to execute contract(s) between INSUREtrust and the Insured that outline responsibilities and scope of work.

Once a satisfactory assessment is completed and a report is generated we will present this to the insurer and begin to negotiate final rates and policy structure. It is important to note that the policy will not be broader than the guarantee and the guarantee must be within the capabilities of the insured as outlined in the risk assessment. Additionally, the guarantee must have been approved during the legal process and by the insurer. Changing any of your contracts, policies and procedures or the wording of your guarantee will result in additional fees to be determined at that time.

Insurance proposal:

Assuming the insurer agrees to final terms we will put together a proposal for your agent outlining all of the particulars of the program. Additionally, claims handling procedures will have to be agreed to by all parties. Even though the insurer does not anticipate having losses there is always the possibility that a claim will arise, whether it is legitimate or not.



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Once the premium is received we will bind coverage and issue documentation to your agent accordingly. On going service by INSUREtrust and your agent is anticipated and not additional charges are required by INSUREtrust until your renewal or you change your business operations or model. However, any ongoing legal fees due to changes required by you will be your responsibility.

It is our intention to deliver to you an acceptable insurance program. We are not interesting in earning fees for opportunities that do not result in the placement of insurance. However, there are many aspects of arranging such a program that are out of our control. For one, the insurance industry is subject to drastic changes in underwriting appetite and capacity. There are no guarantees that the insurance will be available or reasonable at the time we enter final negotiations with the insurer(s).

Read and accepted by the following party:

Signature

Date

Print name, company and address: