

HCIC (Home Construction Insurance Company, A Risk Retention Group)

Broker Guide

**A Builder Owned
Risk Retention Group Program**

**Program Administrator:
Jansen & Hastings**

**Paul Jansen
Tel: 011-44-20-7374-5929
Email: paul.jansen@bmsgroup.com**

**Kevin Hastings
011-44-20-7374-5920 or
Email kevin.hastings@bmsgroup.com**

**JANSEN & HASTINGS INTERMEDIARIES LTD.
Latham House,
16 Minories
London
EC3N 1AX
United Kingdom
Tel: 011 44 207 480 0316
Fax: 011 44 207 867 8533**

HOME CONSTRUCTION INSURANCE COMPANY A RISK
RETENTION GROUP, INC.

INDEX

EXECUTIVE SUMMARY	3
THE RISK RETENTION GROUP ALTERNATIVE FOR CBIA MEMBER BUILDERS	3
RISK RETENTION GROUPS	3
BENEFITS OF A RISK RETENTION GROUP FOR CBIA MEMBERS	4
STRUCTURE	6
TYPE OF COMPANY	6
ELIGIBILITY	6
SCOPE OF BUSINESS	6
OPERATION	7
OFFERING OF SHARES.....	8
WHAT TO DO NEXT IF YOU ARE INTERESTED IN BEING INSURED BY HCIC	9

This Member Guide is not complete and is not intended to be complete. No offering of shares is hereby made. Any offering will be made only after preparation and delivery of a complete Offering Memorandum, which can be obtained from Jansen and Hastings’ office. In the event of any inconsistency between this Broker Guide and the Offering Memorandum, the Offering Memorandum will control and nothing in this Member Guide shall be binding on Jansen and Hastings or any Risk Retention Group.

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

Executive Summary

The Risk Retention Group Alternative for CBIA member Builders

To address the severe liability insurance availability and affordability crisis facing members of the California Building Industry Association (CBIA), Home Construction Insurance Company, A Risk Retention Group, Inc. has been formed pursuant to the Federal Product Liability Risk Retention Act of 1981 as amended by the Risk Retention Amendments of 1986 (hereinafter, "LRRRA" or the "Act").

A RRG is a group policyholder-owned insurance company (often referred to as a "captive") which, upon the basis of a single state license, can operate throughout the U.S. with the bulk of multi-state regulation by non-domiciliary insurance departments preempted by the LRRRA.

Home Construction Insurance Company (HCIC) is owned and capitalized by select members of CBIA who, in turn, will be afforded liability insurance coverage by the RRG. HCIC will operate under the guidance of a Board of Directors and Committees composed chiefly of insured members of the RRG. Operational management will be provided by Jansen and Hastings, London serving as Program Administrator. Home office, regulatory and captive management services will be provided by Risk Services, LLC. HCIC will outsource its operational functions to these and other service providers operating under the guidance of the Board of Directors.

Risk Retention Groups

A risk retention group (RRG) is a federally created insurance company, typically formed in a captive friendly domicile. A captive is a specialty class of insurance company owned and capitalized by its policyholders, often in a particular industry, which insures primarily, if not exclusively, the risks of its owners. Insurance industry analysts estimate that up to 40% of annual commercial property and casualty premium (totaling in the aggregate many billions of dollars annually) are written through captives and other similar alternative insurance market mechanisms.

RRGs are entities created under the LRRRA, which was enacted into law by Congress in 1981 and expanded in 1986 to respond to the unavailability and unaffordability of commercial liability insurance. Under the Act, a risk retention group is a state chartered and licensed liability insurance company organized for the primary purpose of assuming and spreading the liability exposures of its group member owners. In order for a HCIC sponsored RRG to meet the requirements of the LRRRA:

- (a) each insured must be a stockholder of the RRG;
- (b) each stockholder must purchase insurance from the RRG; and
- (c) all insureds must, through their business or activities, be exposed to similar or related liability exposures.

As an entity formed under the LRRRA, HCIC will benefit from the Act's provisions limiting insurance regulation by states other than the RRG's state of domicile and from provisions granting exemptions from regulation under state and certain federal securities laws.

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

HCIC will be regulated only by its state of domicile and will have to comply only with the form and rate rules of that single state. Availing itself of this option, HCIC has obtained a single license in Nevada which has enacted specific captive laws and regulations and possesses the regulatory infrastructure necessary to facilitate the formation and operation of member owned insurance companies, including risk retention groups. California, although the home state of the vast majority of HCIC's prospective member insureds, has neither the legislation nor the regulatory framework to render California a viable alternative as a potential domicile for HCIC.

Under the LRRRA, a RRG is limited to providing commercial liability coverage to its member insureds. Thus, HCIC RRG could not offer its members workers' compensation, property or personal lines coverage.

The Act requires all owners and insureds of the RRG to have similar or related liability exposures. Thus, participation in HCIC would be limited to those owner/insureds engaged in the residential construction industry.

The Act further requires that all RRG owners must be insureds of the RRG and all RRG insureds must be owners of the RRG. Thus, only those parties or entities insured by HCIC could own stock in the company and vice-versa.

To facilitate the raising of capital by a risk retention group, the LRRRA affords broad preemption from most state and federal securities laws that otherwise apply to a stock offering. This preemption minimizes the time, effort and often significant legal expense generally associated with the registration and sale of stock in a newly created stock company.

Benefits of a Risk Retention Group for CBIA members

Unlike a traditional insurance company whose ultimate purpose is to enhance its own bottom-line profitability, the primary mission of a RRG is to provide its owners with stable, reliable and affordable insurance coverage. The RRG mechanism is designed to avoid the wide price swings common in the traditional insurance industry, and a RRG may utilize whatever actuarially justifiable premium rating structure and coverage form it chooses consistent with the approval and state filing requirements of a single domiciliary regulator. Ultimately, coverage and premium terms will be based on the actual loss experience of HCIC's members rather than on the traditional insurance industry's perception of the class of business as a whole. This flexibility to tailor coverage terms to meet the unique needs of HCIC's members, rather than to rely on "off the shelf" coverage and terms provided by traditional insurers, is a critical feature of successful association insurance programs.

A primary component of insurance industry profit is underwriting income – essentially, the difference between the premium charged and the losses paid. By reducing these losses through sound claims handling and the imposition of policyholder risk management practices, the traditional insurer benefits by improving its own bottom-line profitability, but the policyholder rarely benefits. On the other hand, enhancement of a RRG's profitability through sound underwriting practices, loss prevention and claims handling inures directly to the benefit of the RRG's policyholders, typically in the form of reduced premiums and enhanced coverage for its members.

A second component of profitability for the insurance industry is investment income – interest and gains earned by insurers on loss reserves held from premiums collected from policyholders to pay known and actuarially expected losses. Some lines of liability coverage, including those sold to policyholders in the building industry, are notoriously "long tail", meaning that the time period

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

between when the premium is collected and when the loss is actually paid can be ten years or more. On such long tail lines, the investment income which inures to the benefit of the insurance company prior to its actual payment of claims can be quite significant. As a member-owned insurance company, this investment income inures to the benefit of the RRG and can be utilized by the RRG to offer lower premiums and enhanced coverage and services to its members.

Moreover, as a direct-writing insurance company, HCIC will be able to access the reinsurance marketplace which is otherwise not accessible to commercial insurance policyholders. As insurance for insurers, the reinsurance mechanism limits the exposure to large losses which the insurer assumes and expands the insurer's capacity to provide coverage to its customers. Because of economies of scale, reinsurers can offer coverage to their insurance clients on more advantageous premium terms than a traditional insurer can offer to its policyholders.

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

STRUCTURE

Type of Company

HCIC will be organized as a stock company in Nevada and formed as a risk retention group pursuant to the LRRRA.

Eligibility

HCIC will engage in the business of insuring members of the California Building Industry Association (CBIA) for liability exposures related to the residential construction industry. The RRG will insure entities and individuals who purchase stock in the RRG and who meet the RRG's underwriting guidelines.

Scope Of Business

1. Unrelated Business

HCIC will not write any unrelated business, as it will only insure its shareholders who must be involved in the residential building construction industry and/or related support industries.

2. Classes of Business to be Written

HCIC will write on a direct basis the following lines of business on both claims made and occurrence policy forms:

- Commercial General Liability

3. Coverage/Limits

a. Commercial General Liability

- \$1,000,000 per occurrence/\$2,000,000 annual aggregate
- \$2,000,000 products/completed operations aggregate
- \$50,000 Fire Damage Legal Liability
- \$5,000 Medical Payments
- \$1,000,000 each employee limit/\$1,000,000 aggregate for Employee benefits.

4. Retentions

HCIC will operate with SIR's as follows:

a. Commercial General Liability

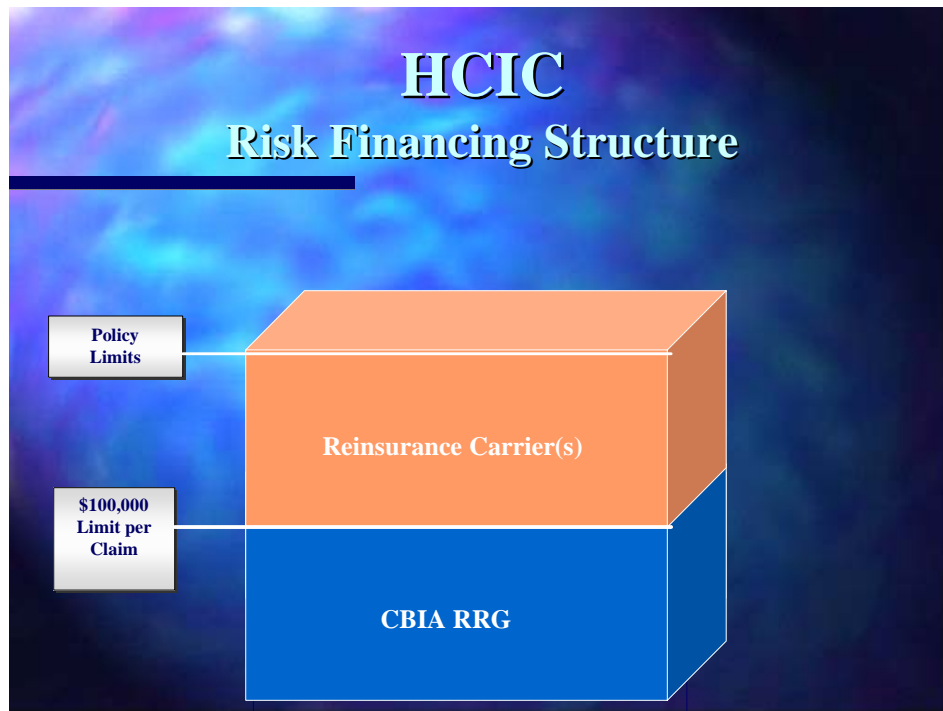
- Average SIR expected to be \$25,000

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

5. Primary Carriers and Reinsurance

HCIC will be eligible to act as a primary carrier pursuant to the LRRRA and will issue policies directly to its shareholder insureds.

To limit its net retention, HCIC has secured reinsurance from a reinsurers "A" rated approved by the RRG's domiciliary regulator. HCIC RRG has secured reinsurance to limit its exposure to any single loss at \$100,000.

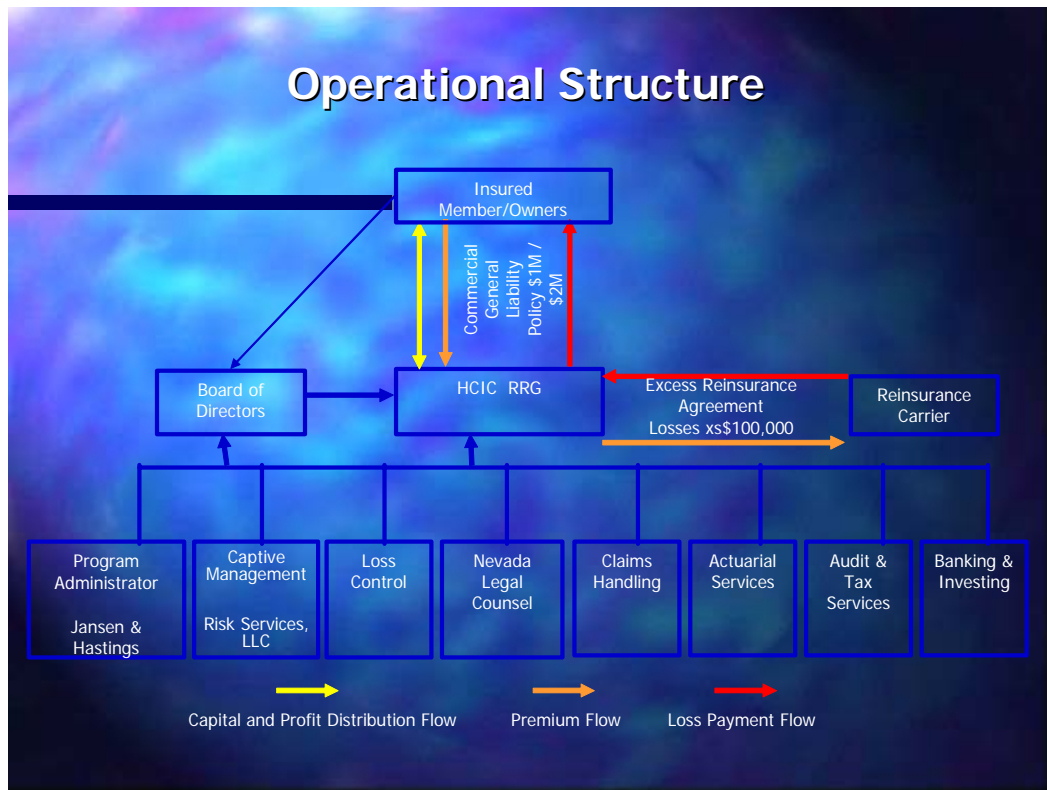


Operation

- HCIC will operate efficiently without the need for salaried staff. Instead, the RRG will utilize outside service providers, coordinated by Jansen and Hastings, the Program Administrator, operating under the guidance of HCIC's Board of Directors. The Board of Directors and Committees will primarily be composed of member insureds of HCIC.

Other outside service providers, including legal, actuarial and claims handling providers, will be appointed by the HCIC Board of Directors.

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.



Offering of Shares

HCIC will be formed as a stock company, and pursuant to the requirements of the LRRRA, all insureds will be required to purchase stock in the RRG. A potential HCIC member insured will be required to purchase stock to the value of 1/3rd of the first years premium. Members shall be sold stock in the RRG at \$5.00 per share.

A member may invest amounts in excess of the required capital contribution.

Due to the requirements of RRG ownership imposed by the LRRRA, there must be significant restrictions on the transferability of RRG stock. Prospective purchasers of HCIC stock should carefully consider the potential lack of liquidity of any ownership interest in the RRG and instead view any participation as a potential long-term solution to their insurance needs.

HOME CONSTRUCTION INSURANCE COMPANY A RISK RETENTION GROUP, INC.

What to do next if you are interested in Being insured BY HCIC

In order to be considered for inclusion as an insured/stockholder within HCIC each builder will need to provide **all** the following information via their insurance agent:

1. A fully completed Acord application.
2. A fully completed signed and dated Jansen & Hastings Intermediaries Limited – Construction Supplemental Application – 2004 (copy attached).
2. Six – Ten (at underwriters discretion) years of currently valued hard copy Insurance Company loss runs.
3. Six years of historical receipts and payroll.
4. Copy of the current subcontract agreement used with all subcontractors.
5. Current financial statement.
6. Current (next twelve months)and past (Last five years) project list.

If all the above information is not received it will not be possible for HCIC's underwriters to consider that application for inclusion as an insured/stockholder.

Upon completion of the underwriting process and subject to the applicant being deemed an acceptable risk the potential participant in the HCIC program will receive a quote as to the annual first year's premium and accompanying stock purchase required for HCIC membership.

Along with the quote will be the Information Circular and the Subscription and Shareholder Agreement which shall be provided to a potential participant for its review and execution, a requirement for membership in HCIC.