

RISK WELL REWARDEDSM

CAPTIVE INSURANCE AND ALTERNATIVE RISK SOLUTIONS FOR THE MIDDLE MARKET



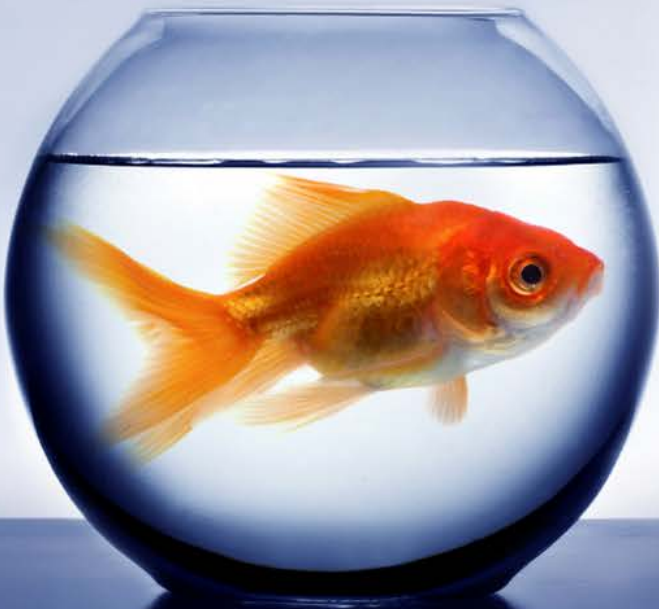
Artex Risk Solutions

- Leaders in the Alternative Risk marketplace for 30+ years
- Over 650 captives under management
- 300 employees located in 15 offices
- Manage a portfolio of 10 Industry-Specific and Mixed-Industry Group-Owned, and Rent-a-Captives
 - Casualty and Workers Compensation Captives
 - Employee Benefits Captives

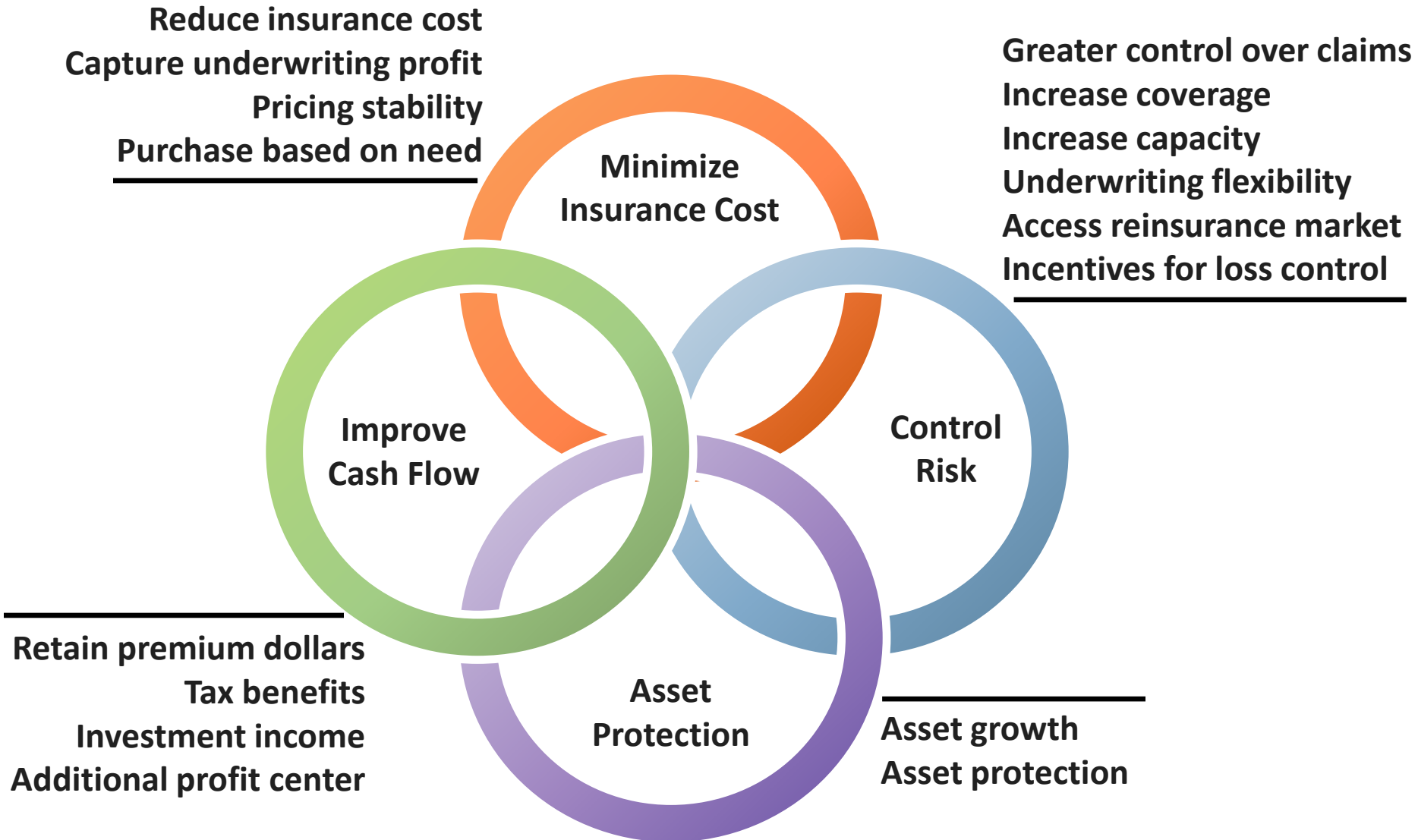
The growth in middle market captives

Fortune 500
Over 80%

Middle Market 106,000 Companies
Less than 5%



Why do Companies Form Captives?



An iceberg floating in the ocean. The tip of the iceberg, which is above the water line, is labeled 'Traditional Insurance'. The much larger, submerged part of the iceberg, which is below the water line, is labeled 'Hidden Enterprise Risks'. To the right of the iceberg, there are two lists of risks, one for the visible tip and one for the hidden part, each enclosed in a white bracket.

Traditional Insurance

Insured Risk

Workers Comp • Property •
Auto • General Liability

Hidden Enterprise Risks

Uninsured Risk

Deductibles / SIR
Policy Exclusions
Operating Risks
A/R Concentration
Construction Defect
Credit Default
Disability
Administrative Actions
D & O / E & O
Legal Defense Reimburse
Mold and Pollution
Product Warranty

Top Risk Concerns Facing Companies Today^{1,2,3}

Economic slowdown

Regulatory / legislative changes

Increased competition

Damage to reputation / brand

Failure to innovate / meet
customer needs

Failure to attract or retain top
talent

Business interruption

Commodity price risk

Technology failure / system failure

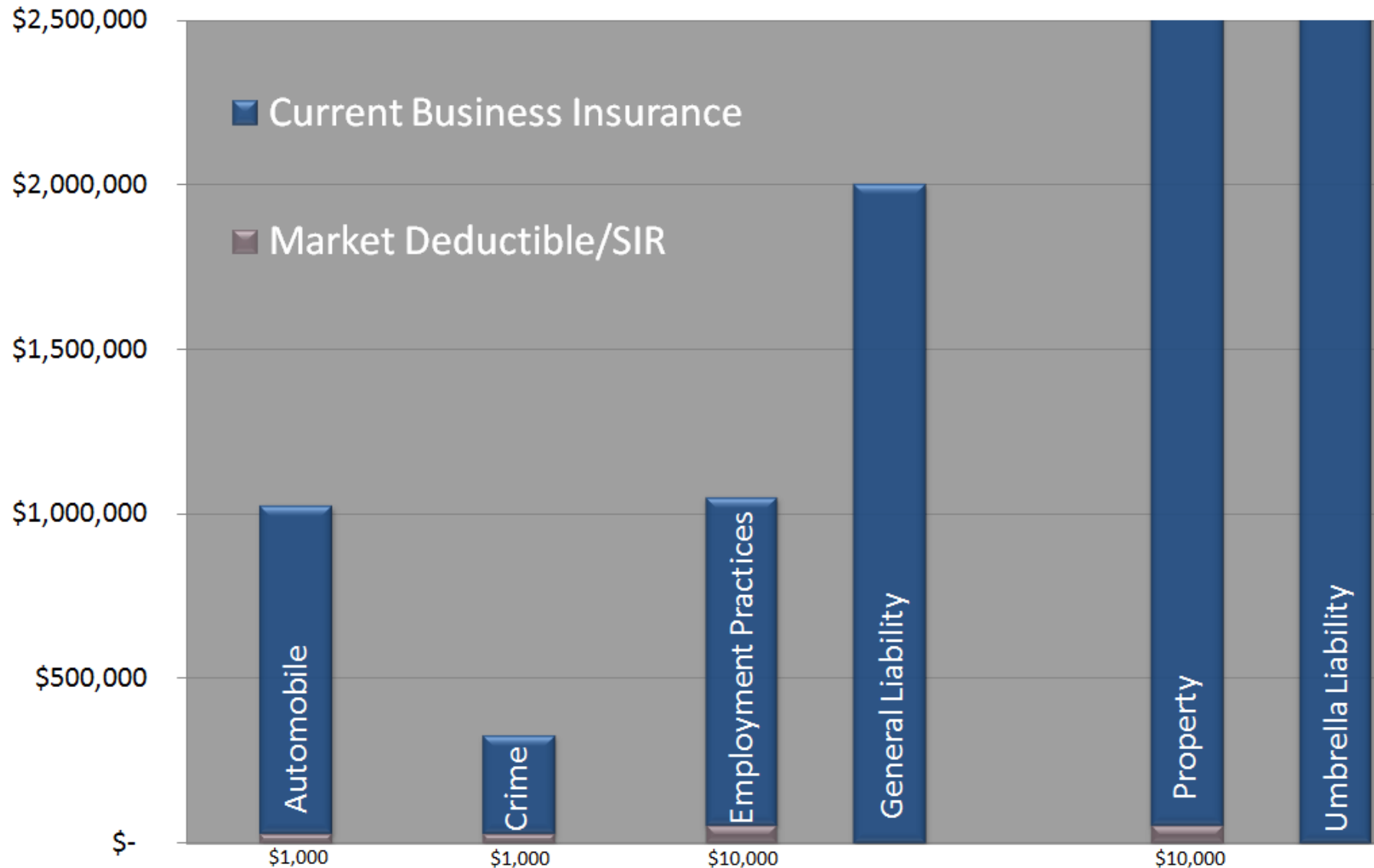
Cash flow / liquidity risk

1 Aon Corporation, Global Risk Management

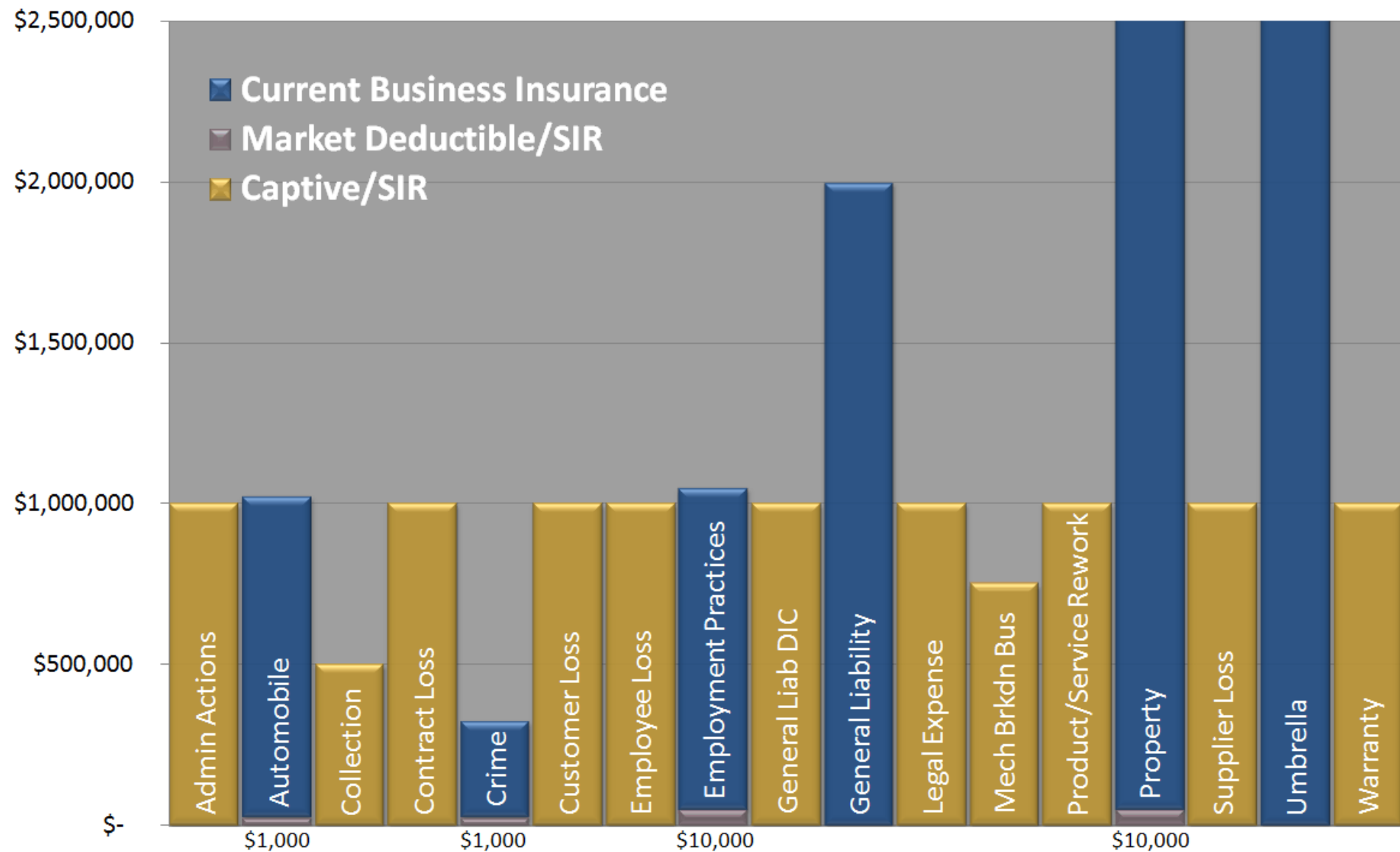
2 Respondents reported number of occurrences in each of these risk areas within the past year, with occurrence rates ranging between 8% to 67%

3 Number of respondents reported feeling adequately prepared for these risks: 69%

Feasibility Study Example



Feasibility Study Example



Taxation of Captive Insurance Company

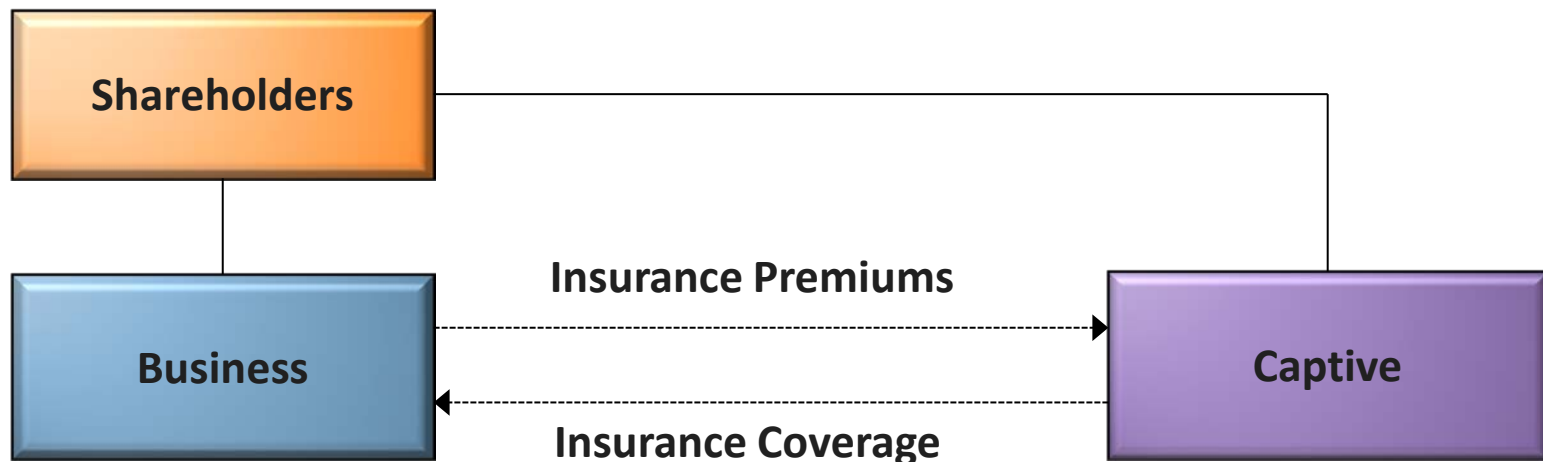
Large Insurance Companies – IRC 831(a)

- Receive unlimited premium
- Deduct future loss reserves against today's premium.

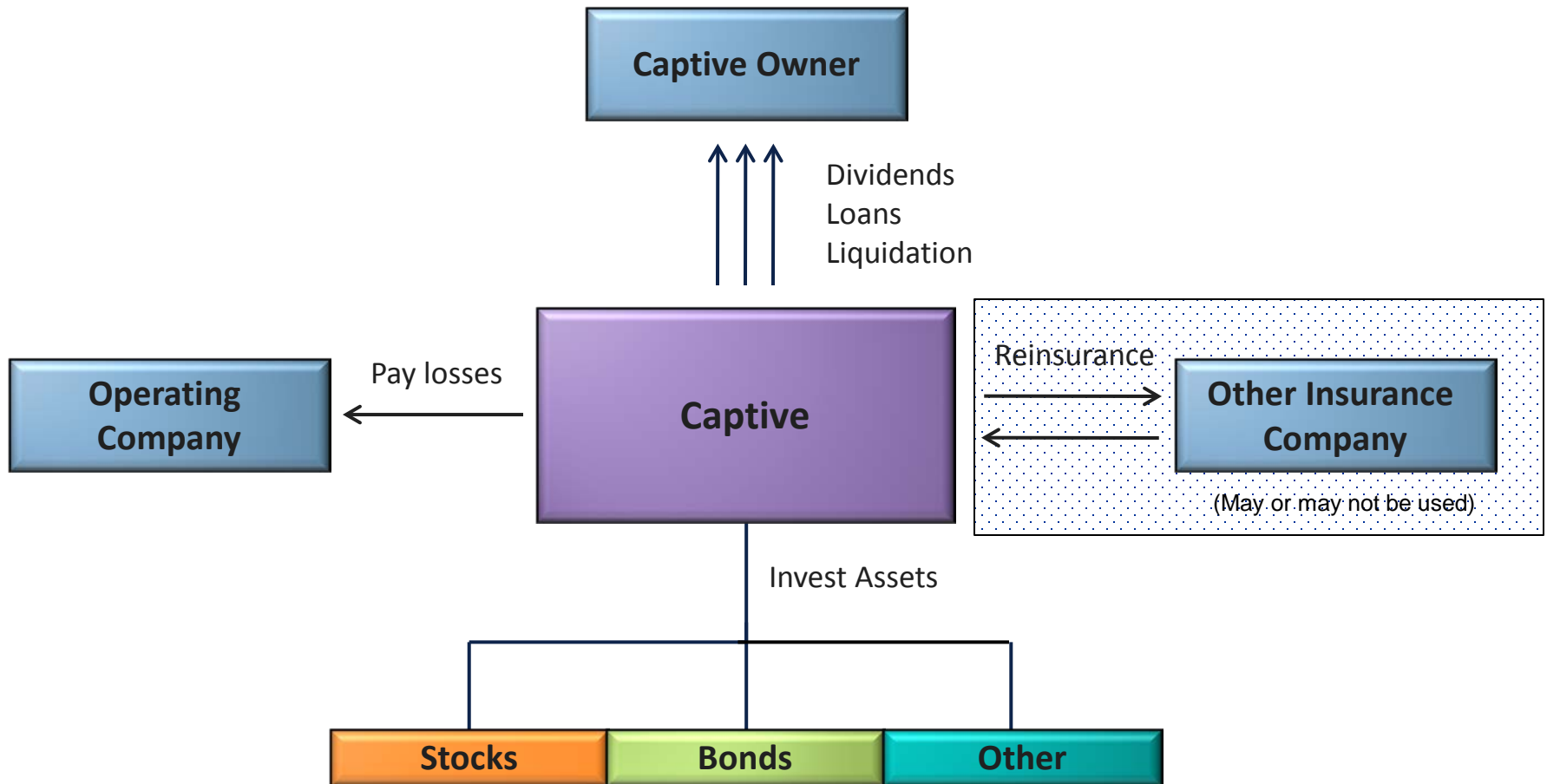
Small Insurance Companies – IRC 831(b)

- Receive \$1.2m or less in annual premium
- All premium received tax-free by insurance co
- Insurance Co pays tax only on investment income

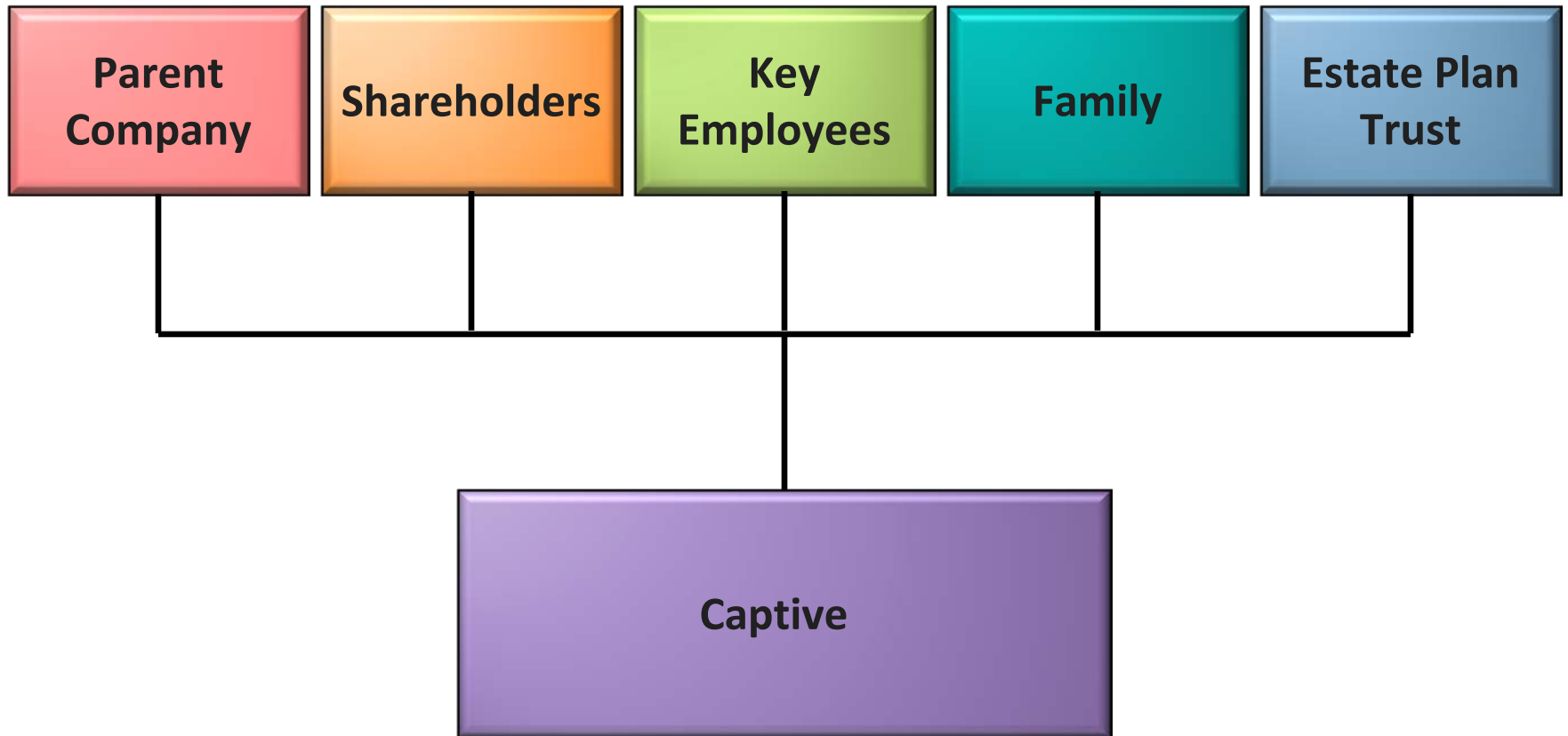
Basic Captive Diagram



Uses of Captive Assets




Ownership Options





A valid captive requires

“Risk Distribution”



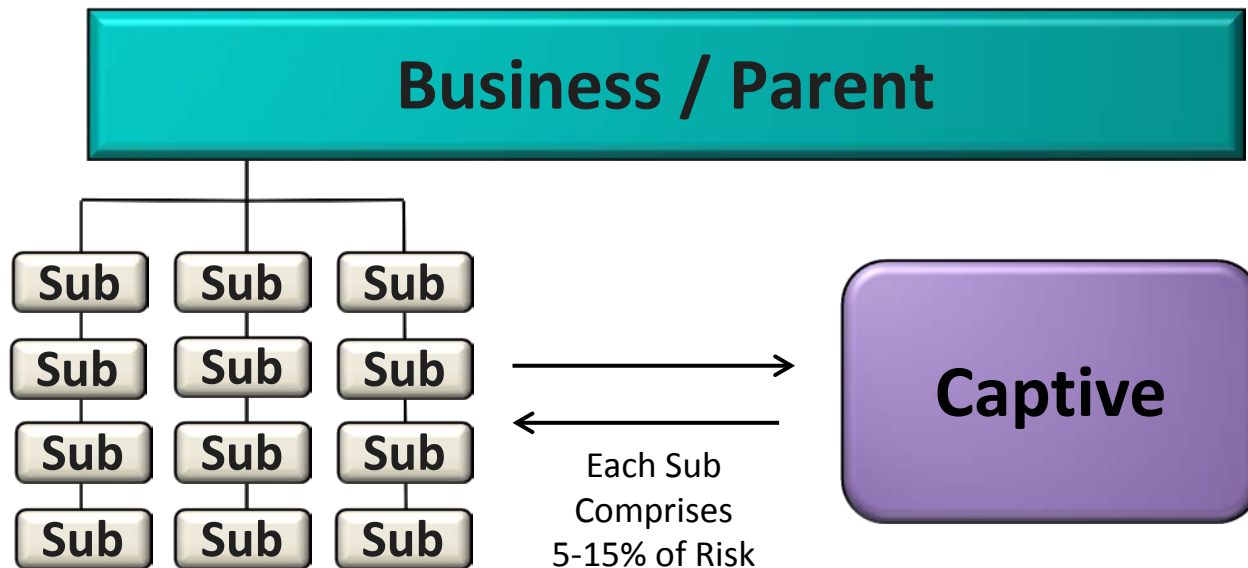
Risk distribution is a spreading of risk that allows the insurer to reduce the possibility that a single costly claim will exceed the amount available to the insurer for the payment of such a claim.

Safe Harbor Revenue Ruling 2002-90

“Rule of 12”

12 Brother / Sister subsidiaries

No single Brother / Sister subsidiary can constitute greater than 15% or no less than 5% of the risk



Risk Pooling Options – Copper Mountain Assurance

- Largest Risk Pool Managed by Artex
- 250+ Participants
- \$100,000,000+ in annual premium
- No Policy Limits in excess of \$1,000,000
- First 25% of all pooled policies (Frequency Layer) retained by insured
- All policies meet Artex Underwriting Guidelines

Artex Pool Options

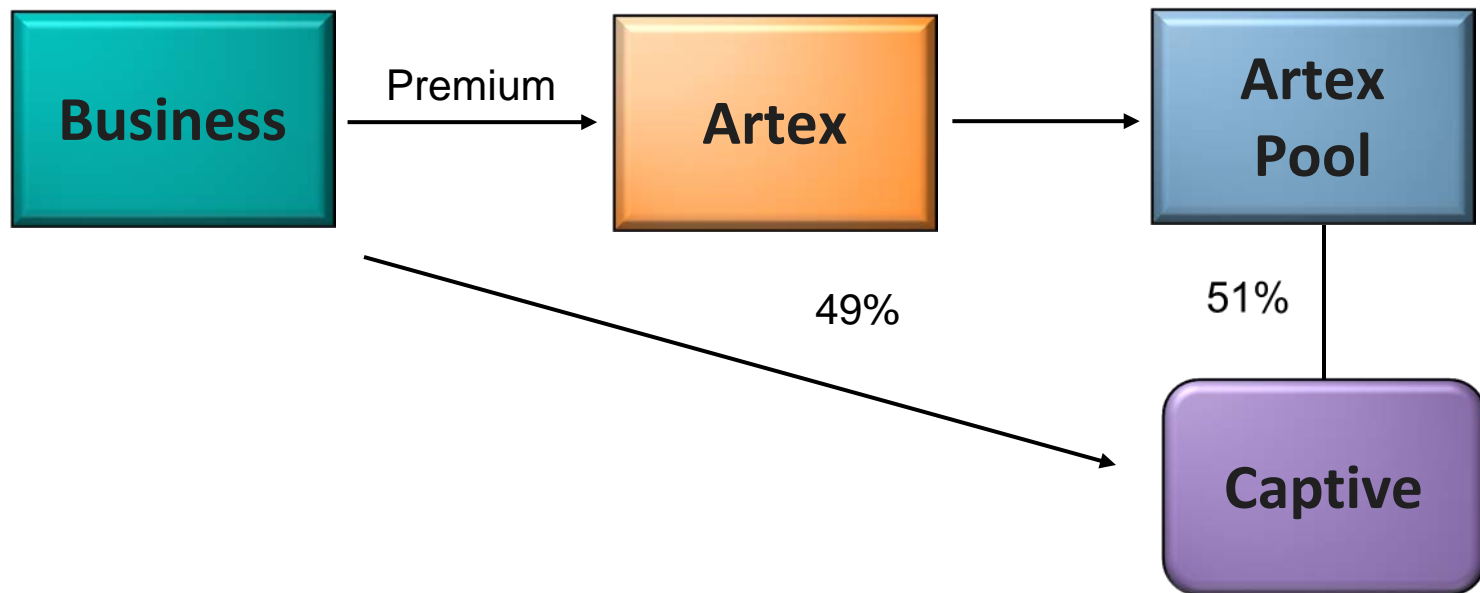
Copper Mountain Assurance

Low \$ / high frequency claims (paid by captive)

49% of risk / premium

Low frequency / high \$ claims (paid by risk pool)

51% of risk / premium



The Captive Process

