# RISK WELL REWARDED

CAPTIVE INSURANCE AND ALTERNATIVE RISK SOLUTIONS FOR THE MIDDLE MARKET

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#### **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

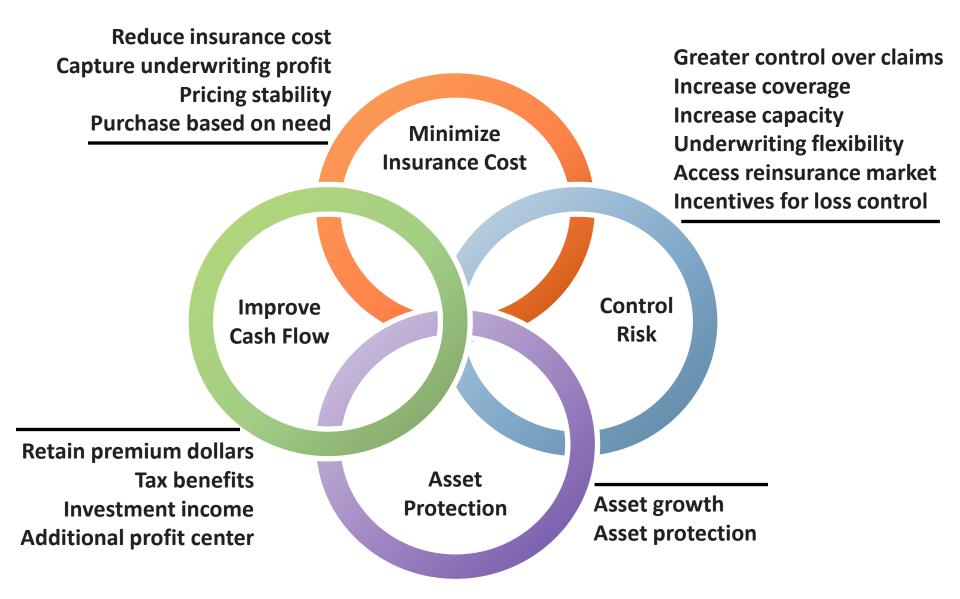
#### The growth in middle market captives



Fortune 500 **Over 80%** 



#### Why do Companies Form Captives?



Traditional Insurance

#### Hidden Enterprise Risks

#### **Insured Risk**

**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 <sup>1,2,3</sup>

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

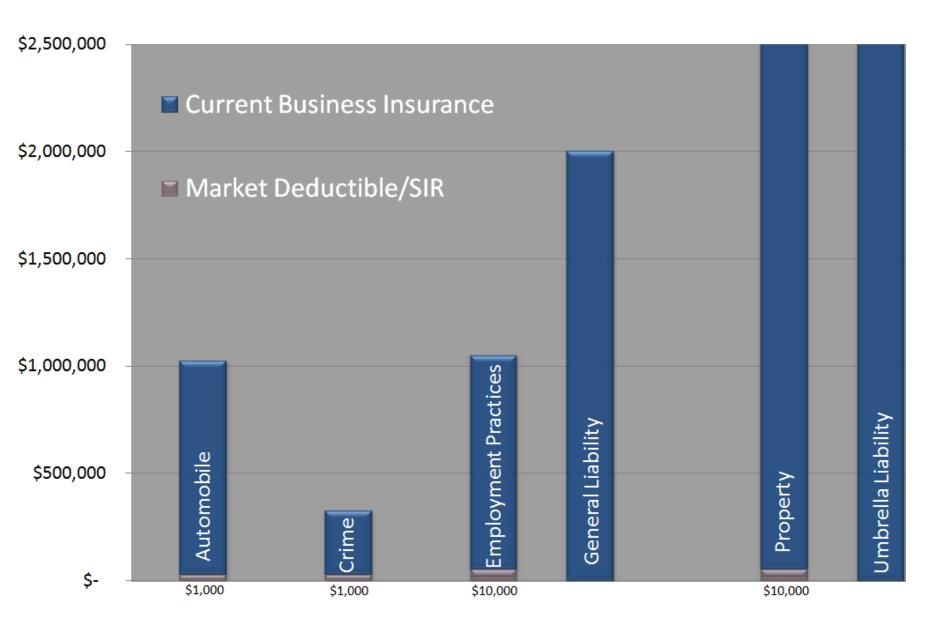
Cash flow / liquidity risk

1 Aon Corporation, Global Risk Management

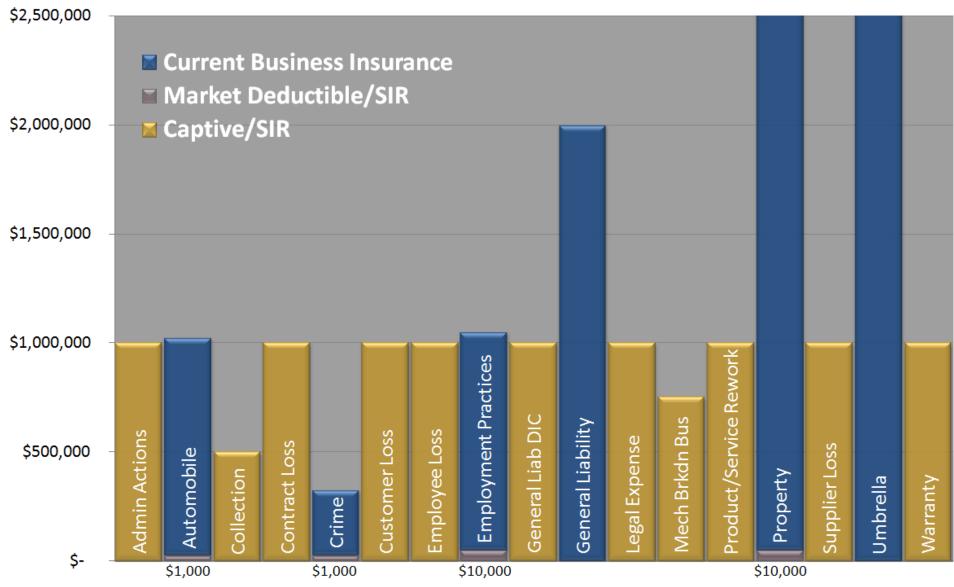
2 Respondents reported number of occurrences in each of these risk areas within the past year, with occurrence rates ranging between 8% to 67%

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

### **Feasibility Study Example**



### **Feasibility Study Example**



#### **Taxation of Captive Insurance Company**

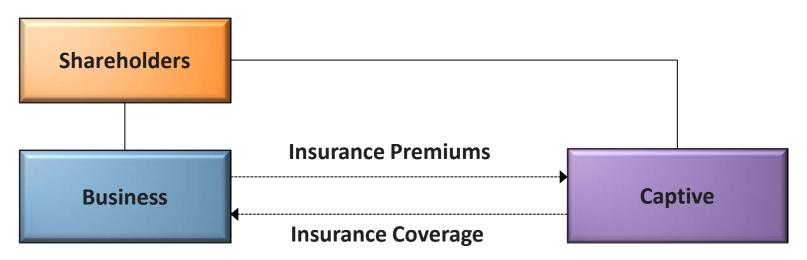
Large Insurance Companies – IRC 831(a)

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

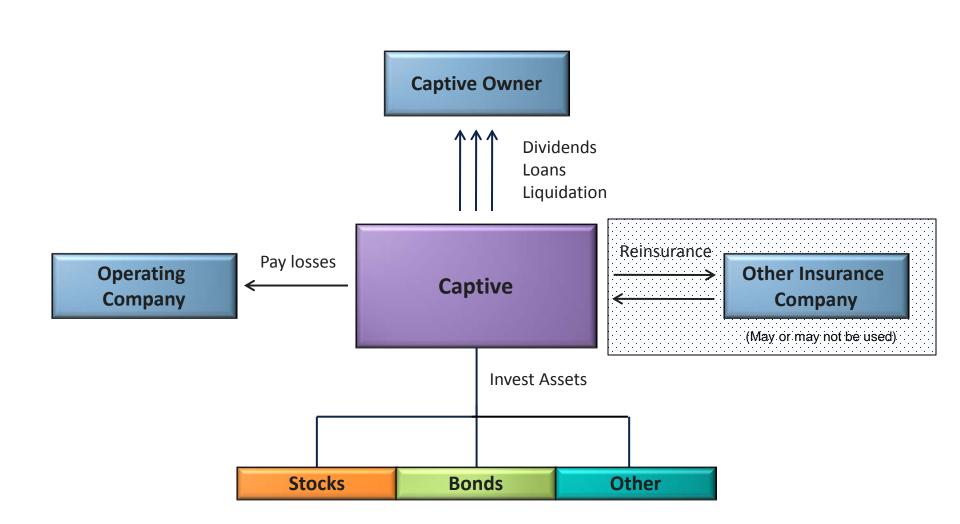
Small Insurance Companies – IRC 831(b)

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

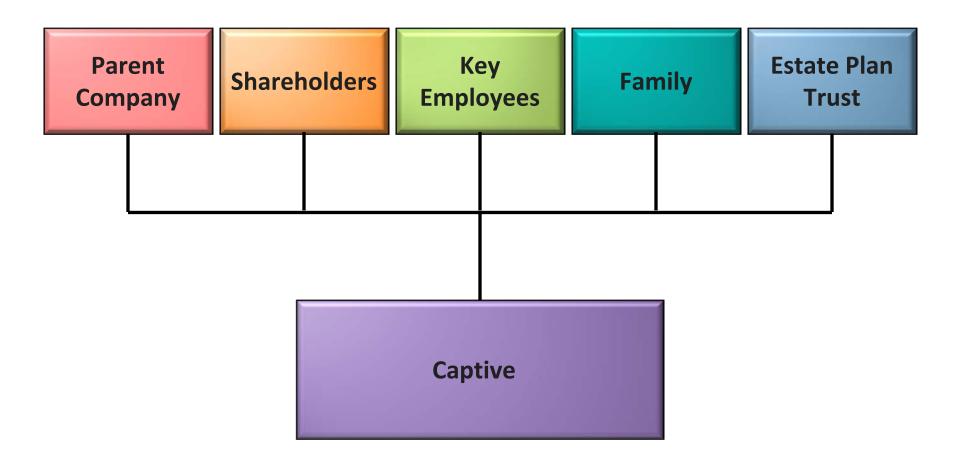
#### **Basic Captive Diagram**



#### **Uses of Captive Assets**



#### **Ownership Options**



A valid captive requires

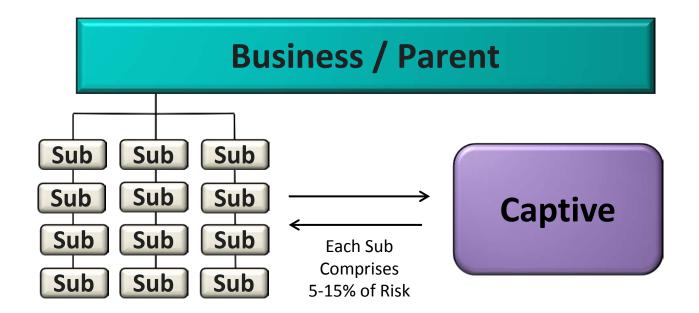
# "Risk Distribution"

**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

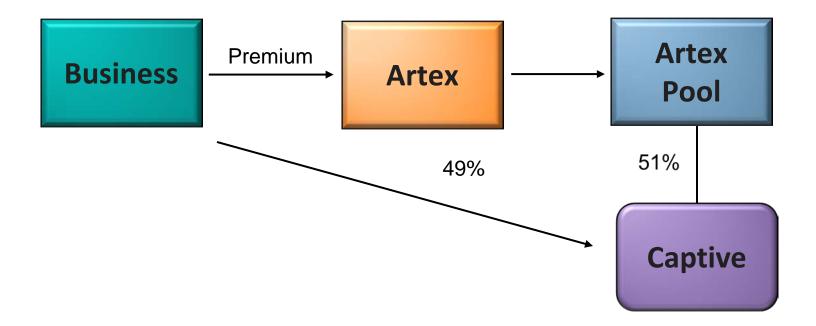
- Largest Risk Pool Managed by Artex
- 250+ Participants
- \$100,000,000+ in annual premium
- No Policy Limits in excess of \$1,000,000
- First 25% of all pooled policies (Frequency Layer) retained by insured
- All policies meet Artex Underwriting Guidelines

#### 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

	Feasibility	Formation	Function
Client Decisions	<ul> <li>What are my business risks?</li> <li>How can a captive help manage these risks?</li> <li>What are the benefits from captive insurance (e.g., risk management, asset protection, tax savings)?</li> <li>How will a Feasibility Study help me make these decisions?</li> </ul>	<ul> <li>Which insurance policies should I purchase through my captive?</li> <li>Who will own the captive (business owner, family, key employees, estate plan trust)?</li> <li>How should the captive's assets be invested?</li> <li>Where will it be domiciled?</li> </ul>	<ul> <li>Have there been any changes to my business ?</li> <li>Have there been any changes to my risk?</li> <li>Shall I purchase the same amount of insurance from my captive in the following year?</li> </ul>
Deliverables	Client: •Feasibility Study materials (current insurance policies, summary of business operations and financials) Artex: •Feasibility Study showing benefits, possible coverages, and estimated premium amounts	Client: •Capital Contribution •Due Diligence on owners of captive •Personal financial statement •Credit /background check •Application Information Artex: •Insurance License •Corp formed and domiciled •Insurance policies	Client: •Monthly bank statements •Board of Directors meetings Artex: •Annual Insurance policies •Monthly meetings •Quarterly management reports •Accounting services including regulation compliance •Annual tax return •Ongoing consulting