RISK WELL REWARDED

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

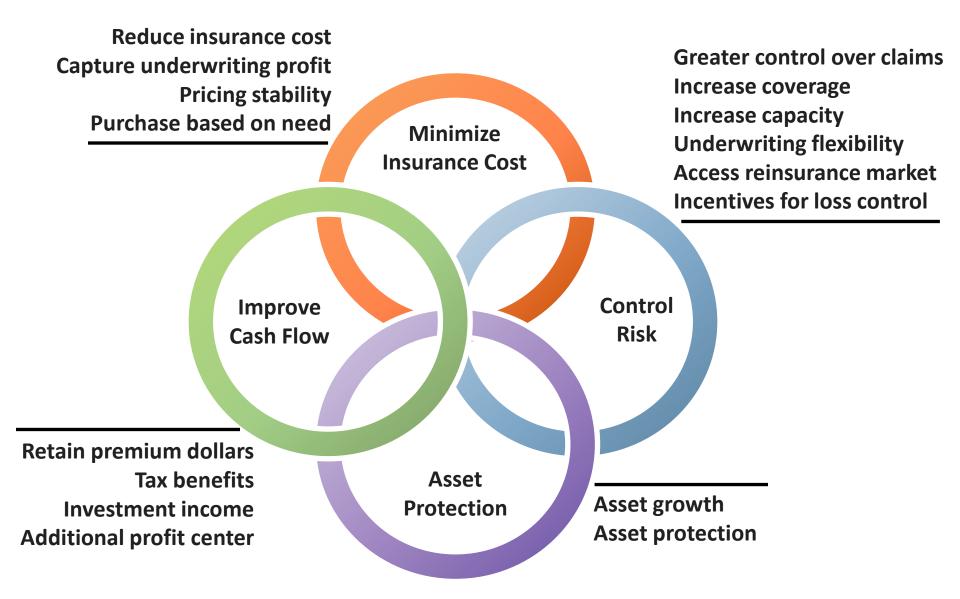
The growth in middle market captives



Fortune 500 **Over 80%**



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 ^{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

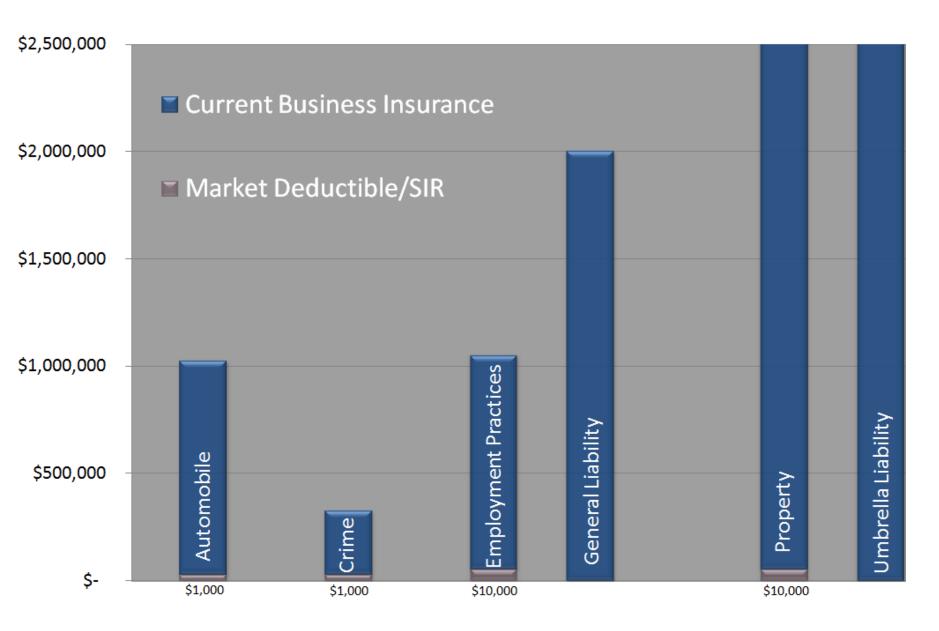
Cash flow / liquidity risk

1 Aon Corporation, Global Risk Management

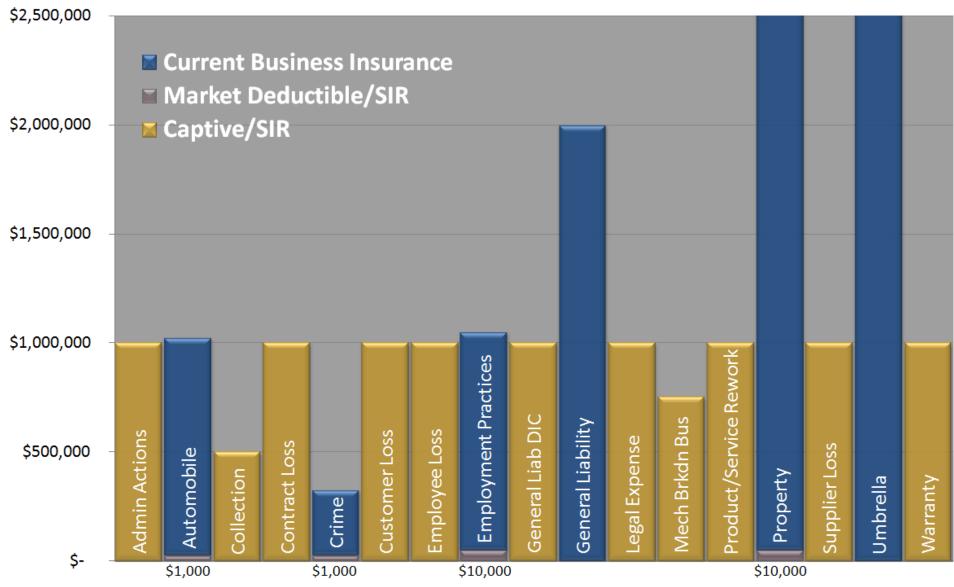
2 Respondents reported number of occurrences in each of these risk areas within the past year, with occurrence rates ranging between 8% to 67%

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

Feasibility Study Example



Feasibility Study Example



Taxation of Captive Insurance Company

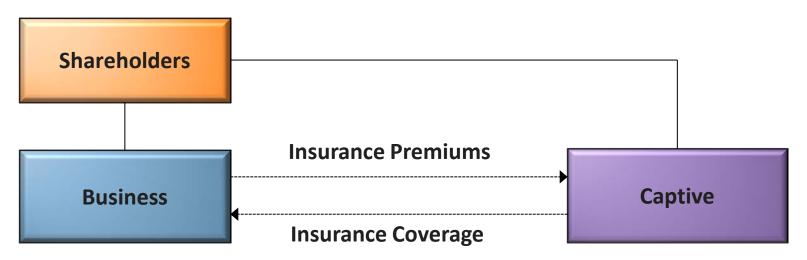
Large Insurance Companies – IRC 831(a)

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

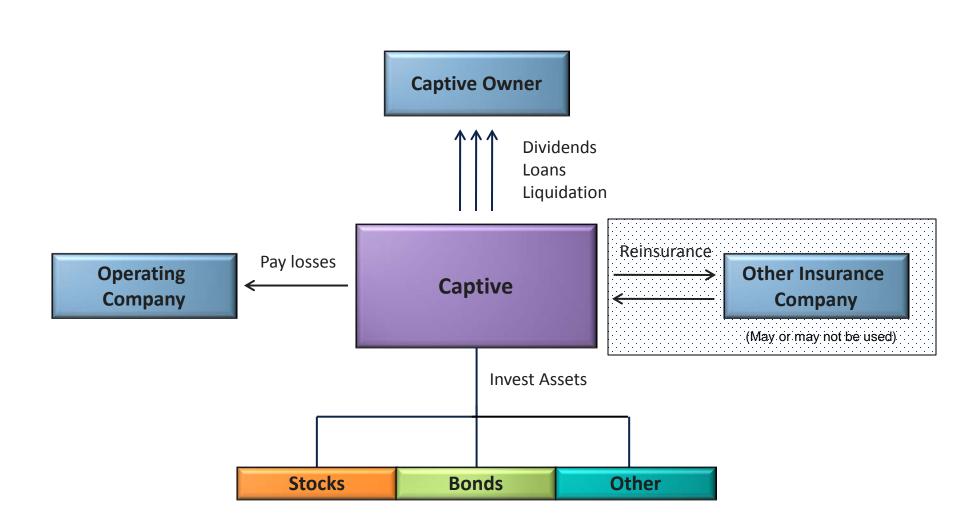
Small Insurance Companies – IRC 831(b)

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

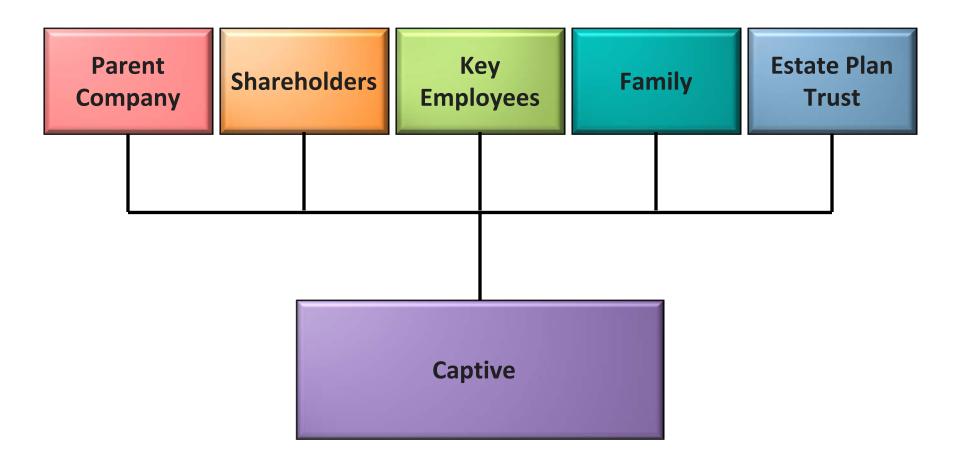
Basic Captive Diagram



Uses of Captive Assets



Ownership Options



A valid captive requires

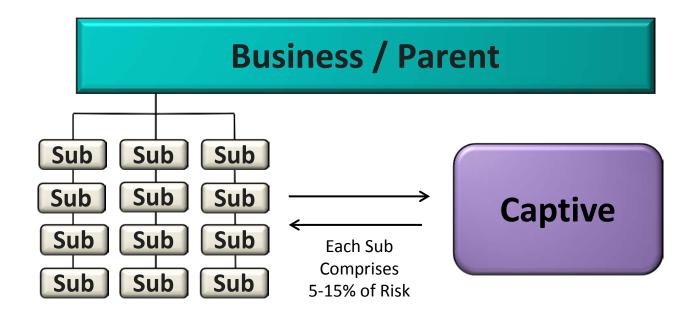
"Risk Distribution"

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

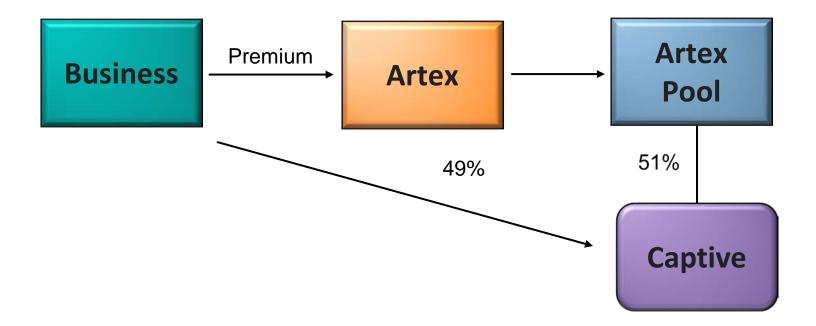
- Largest Risk Pool Managed by Artex
- 250+ Participants
- \$100,000,000+ in annual premium
- No Policy Limits in excess of \$1,000,000
- First 25% of all pooled policies (Frequency Layer) retained by insured
- All policies meet Artex Underwriting Guidelines

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

	Feasibility	Formation	Function
Client Decisions	 What are my business risks? How can a captive help manage these risks? What are the benefits from captive insurance (e.g., risk management, asset protection, tax savings)? How will a Feasibility Study help me make these decisions? 	 Which insurance policies should I purchase through my captive? Who will own the captive (business owner, family, key employees, estate plan trust)? How should the captive's assets be invested? Where will it be domiciled? 	 Have there been any changes to my business ? Have there been any changes to my risk? Shall I purchase the same amount of insurance from my captive in the following year?
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