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POWER

*through Partnership*



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## What is a Group Captive?

- An insurance company operated for the benefit of its members
- A licensed insurance company recognized as an admitted carrier
- Insures or reinsures the risk of its owners or unrelated parties of their choosing



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## Why Buy a Group Captive?

- Performance based pricing
- Return of underwriting profit
- Long-term stabilization
- Control over insurance program
- Group purchasing power
- Reduce insurance costs





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## Who Fits a Group Captive?

- Financially stable
- Commitment to loss control and risk management
- At least \$200,000 Auto, WC, and GL
- Loss ratios under 40%
- High tolerance for risk and long-term approach to insurance program





## Premium Development: *Based on Individual Member's Loss Experience*



### Loss Fund –

Based on Actuary's review of:

- ✓ Premium
- ✓ Exposures
- ✓ incurred losses of past five years

### Fixed Costs –

- ✓ Policy Services
- ✓ Reinsurance
- ✓ Risk Control
- ✓ Captive Management
- ✓ Claims Administration
- ✓ Taxes / Surcharges



### Example Structure





## Return of Underwriting Profit

Underwriting Profit		
Fixed Costs	\$400,000	\$400,000
Loss Funds	\$600,000	\$600,000
Total Premium	\$1,000,000	\$1,000,000
Losses		(\$150,000)
Captive Net Cost		\$550,000



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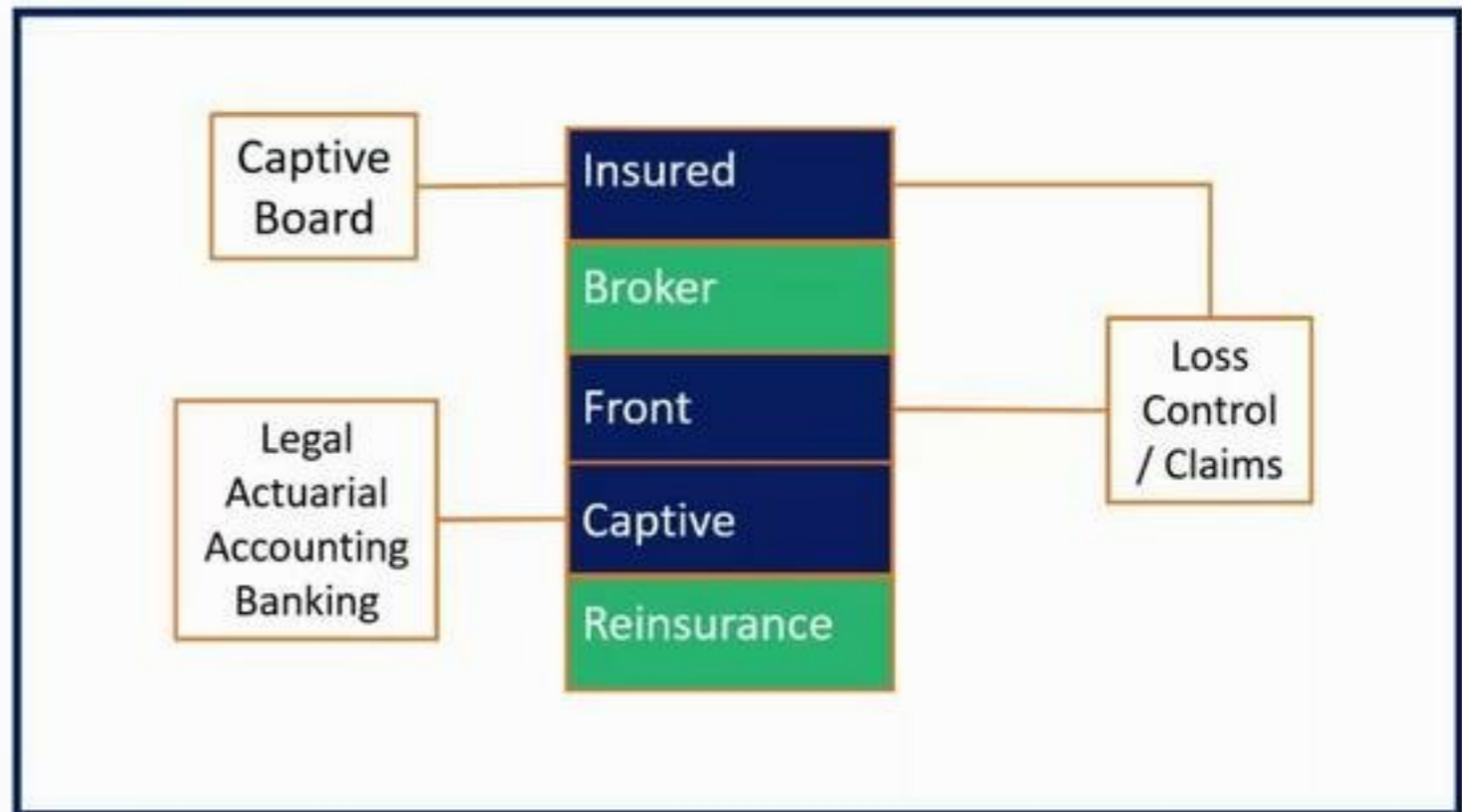
## Long-Term Stabilization – Insulation From Market Cycles

Guaranteed Cost	Captive Premium
\$1,000,000 Premium	\$1,000,000 Premium
10% Rate Increase	10% Rate Increase on Reinsurance Premium (20% of total premium)
$10\% \times \$1,000,000 = \$100,000$	$10\% \times \$200,000 = \$20,000$
Renewal Premium - \$1,100,000	Renewal Premium = \$1,020,000





## Unbundled Program Control & Accountability





## Sample Captive Pricing

Loss fund	600,000	A Fund \$450,000 B Fund \$150,000
Fixed Costs	<u>400,000</u>	Front, Reinsurance, Claims Handling, Risk Control, etc.
Premium	1,000,000	



# Loss Scenarios – Small Loss

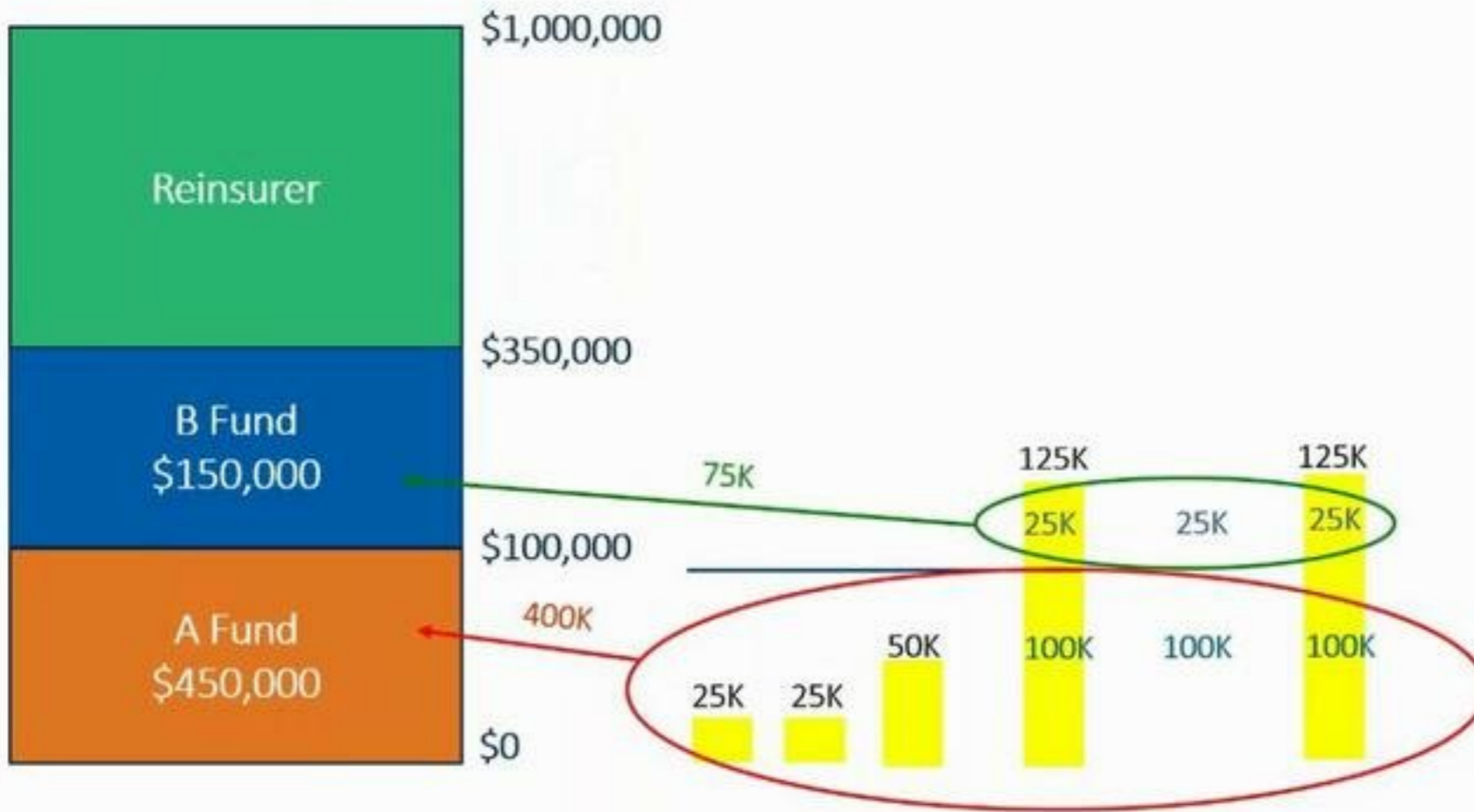
3 "Small" Losses totaling \$100,000



	Frequency Fund	Severity Fund	Fund Balance
Initial	450,000	150,000	
Claims	(100,000)	0	
Balance	<u>350,000</u>	<u>150,000</u>	<u>500,000</u>

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Add 3 \$125,000 Claims



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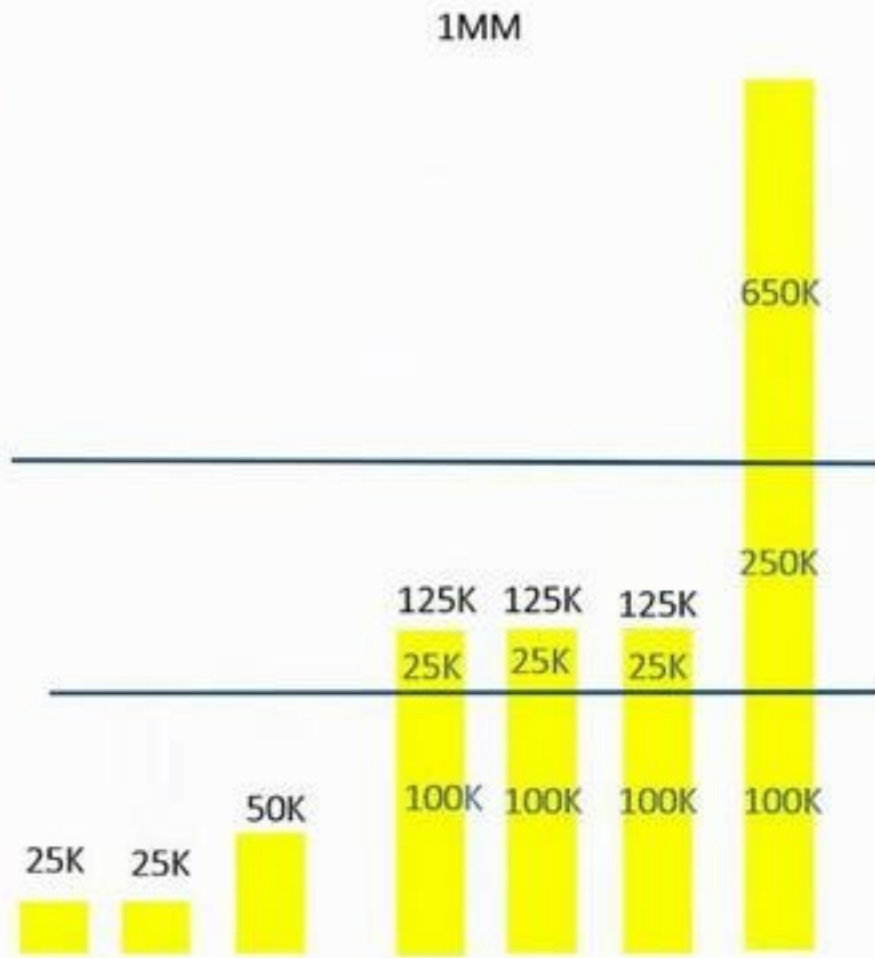
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# Loss Scenarios – Catastrophic Loss

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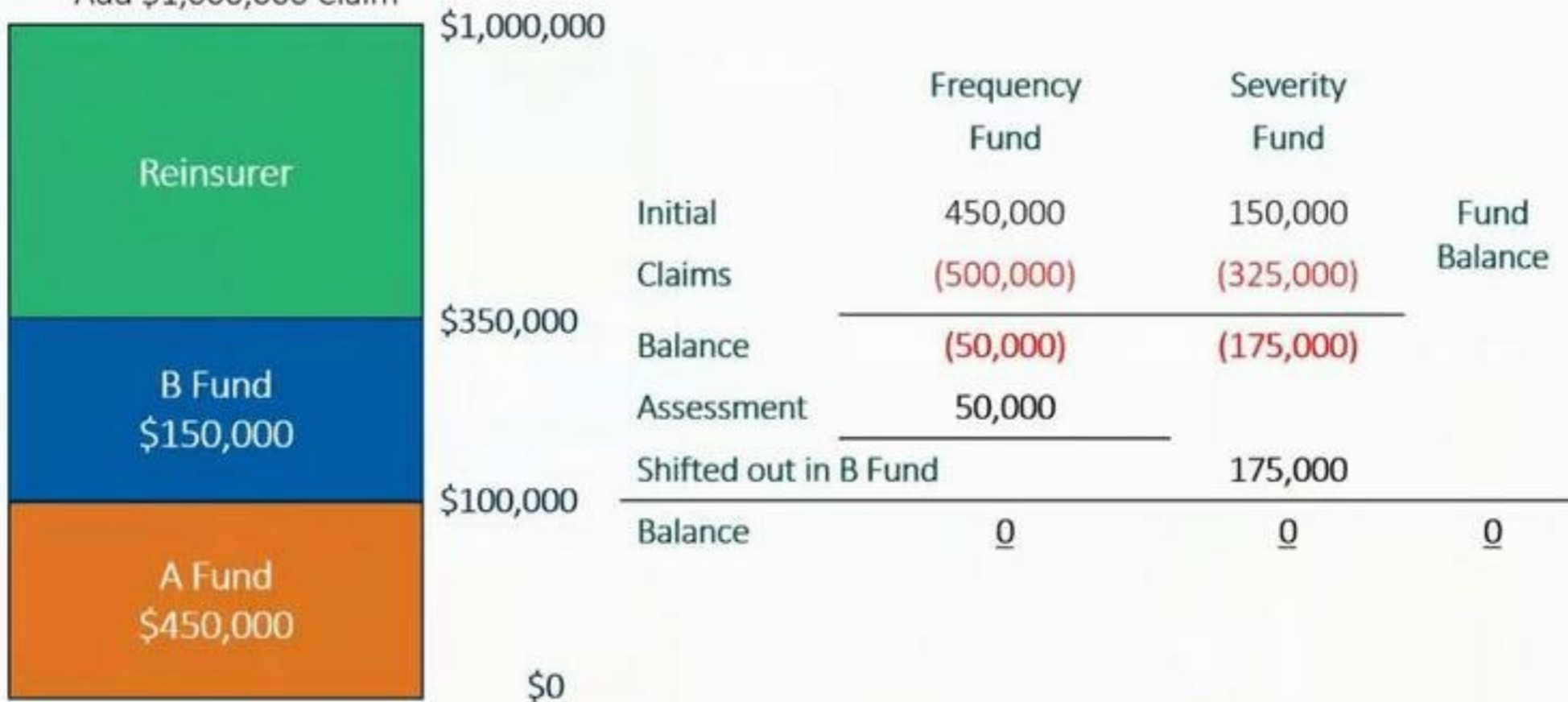


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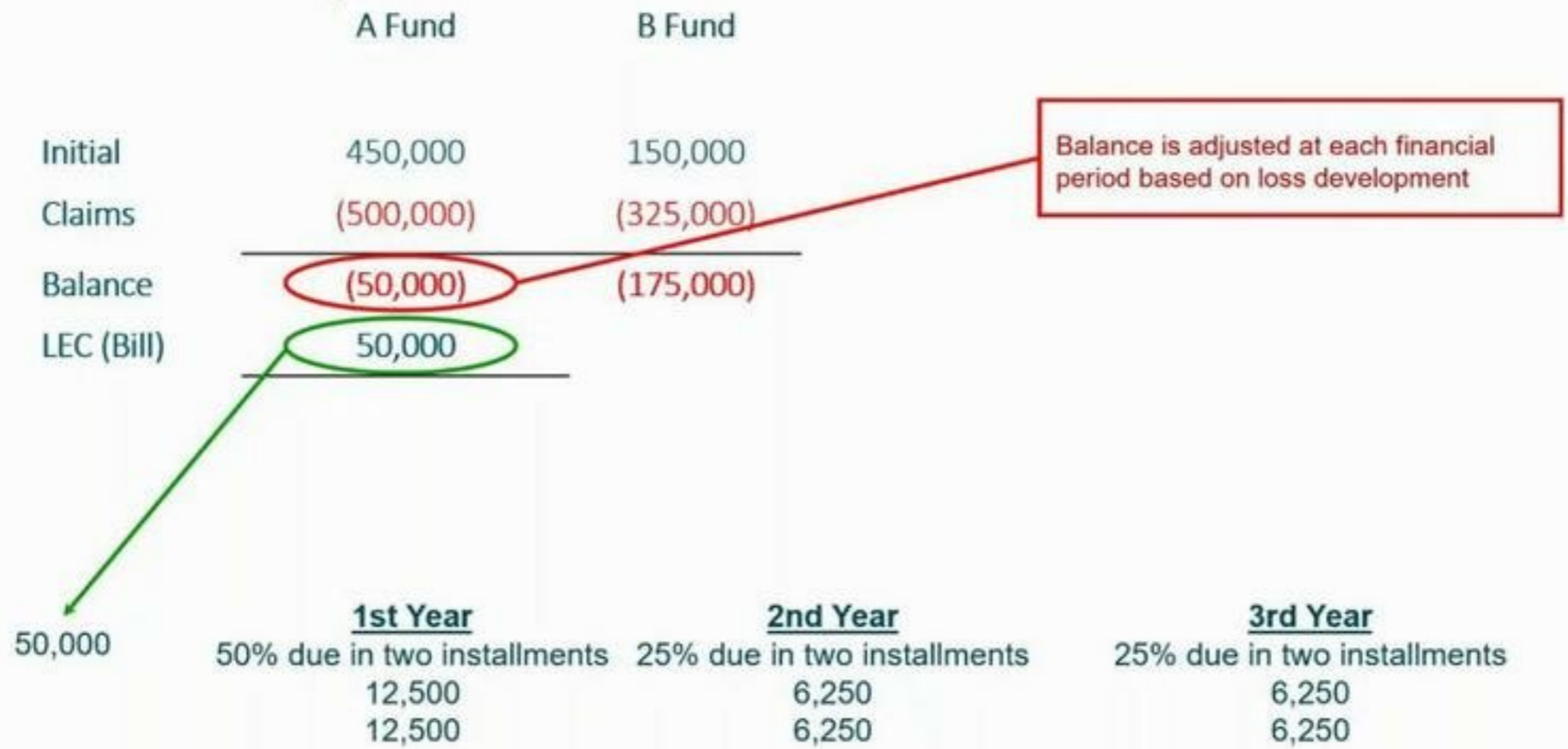
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# Assessment Example





# Collateral

- 2/3 A fund over a 3 year period, not to exceed 2x frequency fund in the current year
- Ex: Assume frequency fund amount did not change

Year 1	Year 2	Year 3	Year 4
\$300,000	\$600,000	\$900,000	900,000 (year 1 drops off)



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