

Captive Insurance Overview



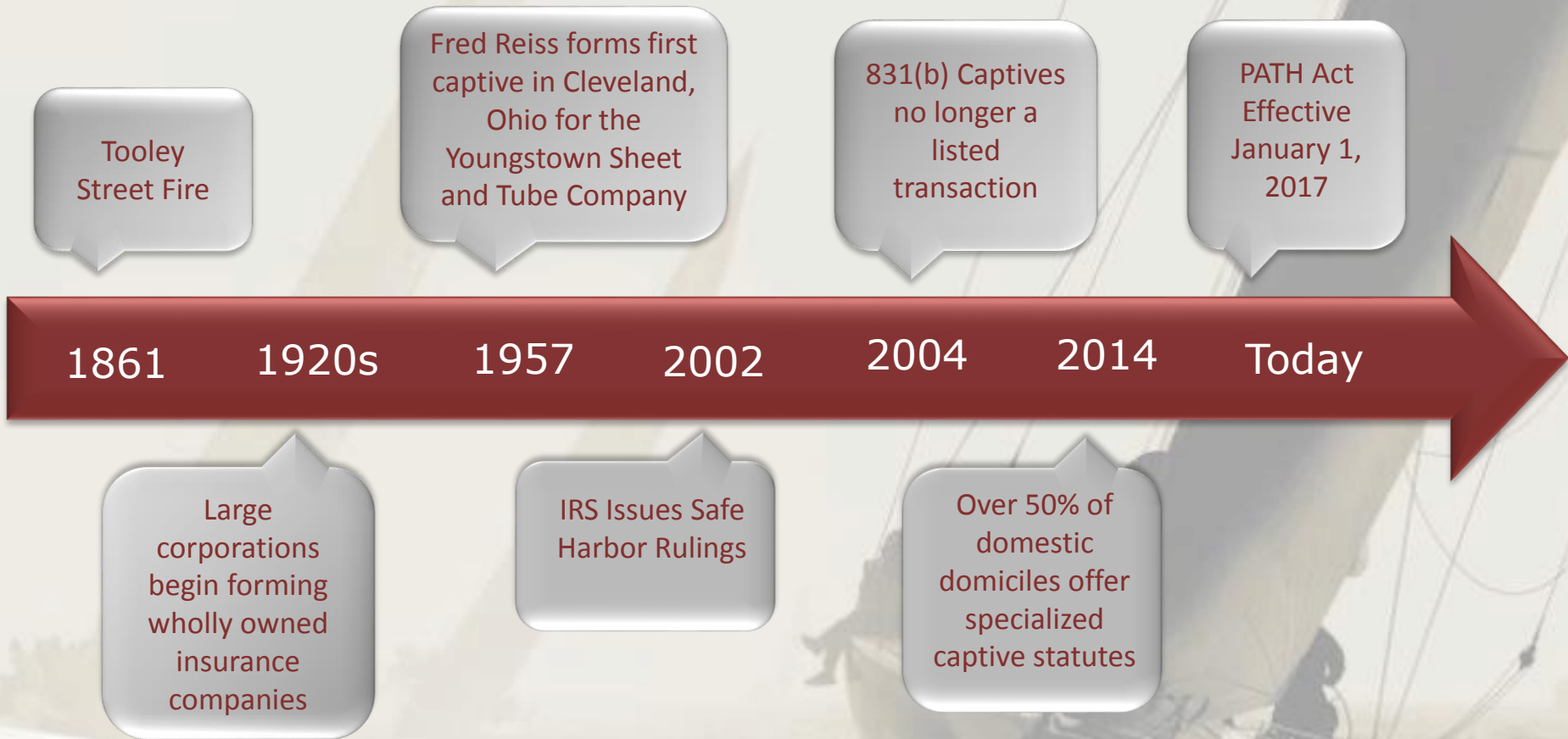
What is a Captive?

- Property & Casualty Insurance Company
- Formed to cover the unique risks of an operating company
- Provides coverage for specialized risks which may not be available or may be too costly to obtain through traditional insurance providers
- A bona fide insurance company, subject to approval and regulatory oversight by the insurance regulators in a chosen domicile

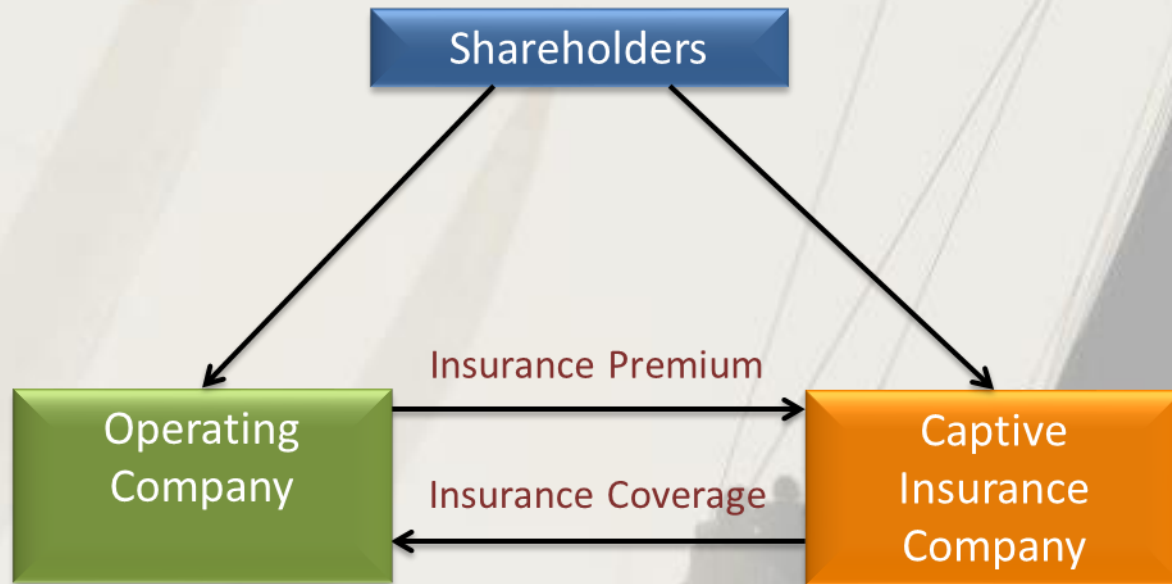
Insurable Risks That May Result in Loss of Business Income

- Business Interruption
- Contract Penalty and Failure to Perform on Contract
- Deductible Reimbursement
- Defense Cost Reimbursement
- Difference in Conditions
- Loss of Franchise
- Loss of Key Employee
- Loss of Licensure
- Legislative and Regulatory Changes
- Reputational Risk
- Suppliers/Supply Chain Interruption

History of Captives



Basic Captive Structure



Middle Market Captive Opportunities

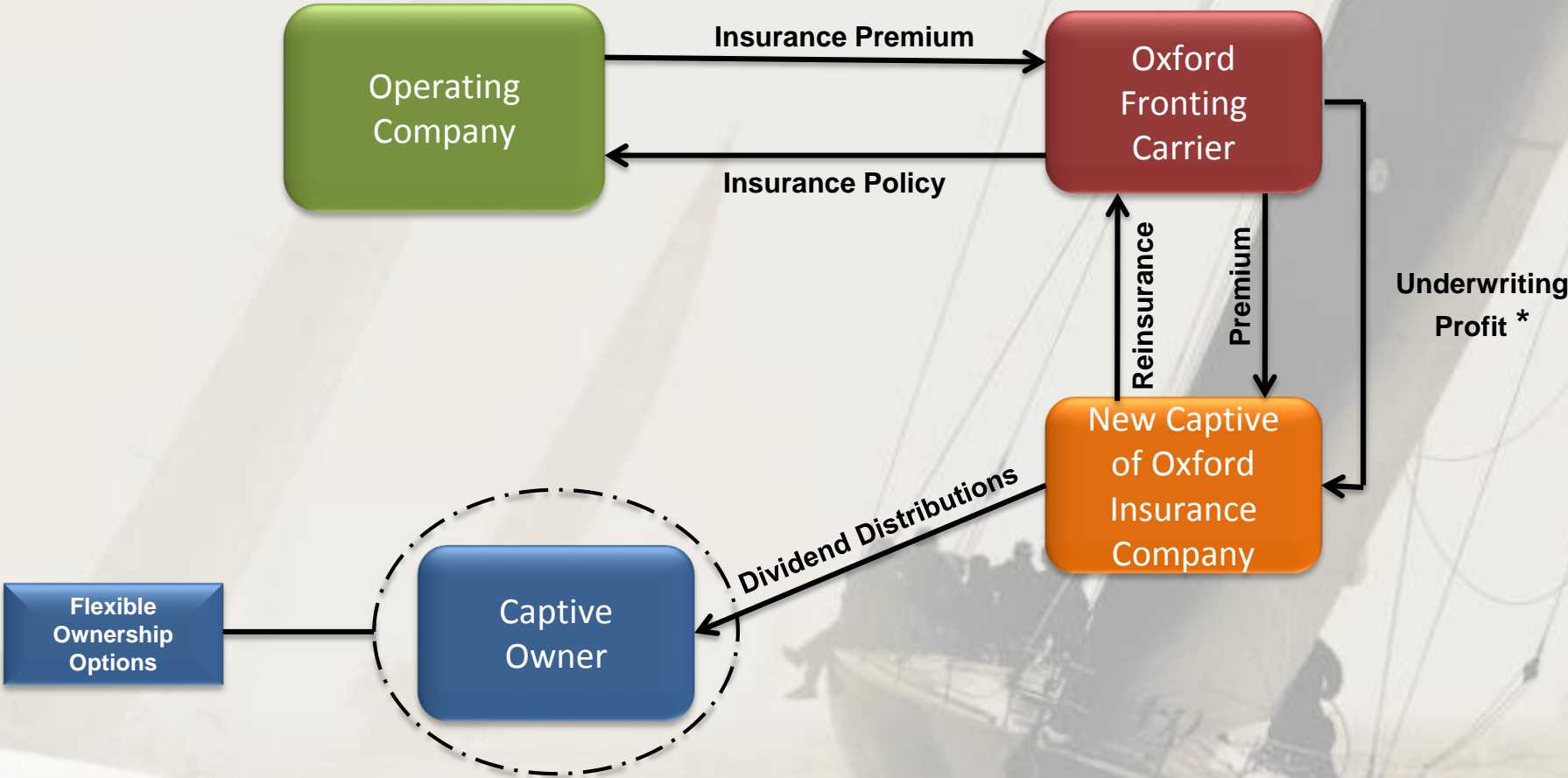
There are multiple cost-efficient platforms available that can help the small to mid-size client effectively manage their Enterprise Risk exposures.

- 831 (b) Captive
- Share Class Captive
- Group Captive

How to Build a Conservative Captive

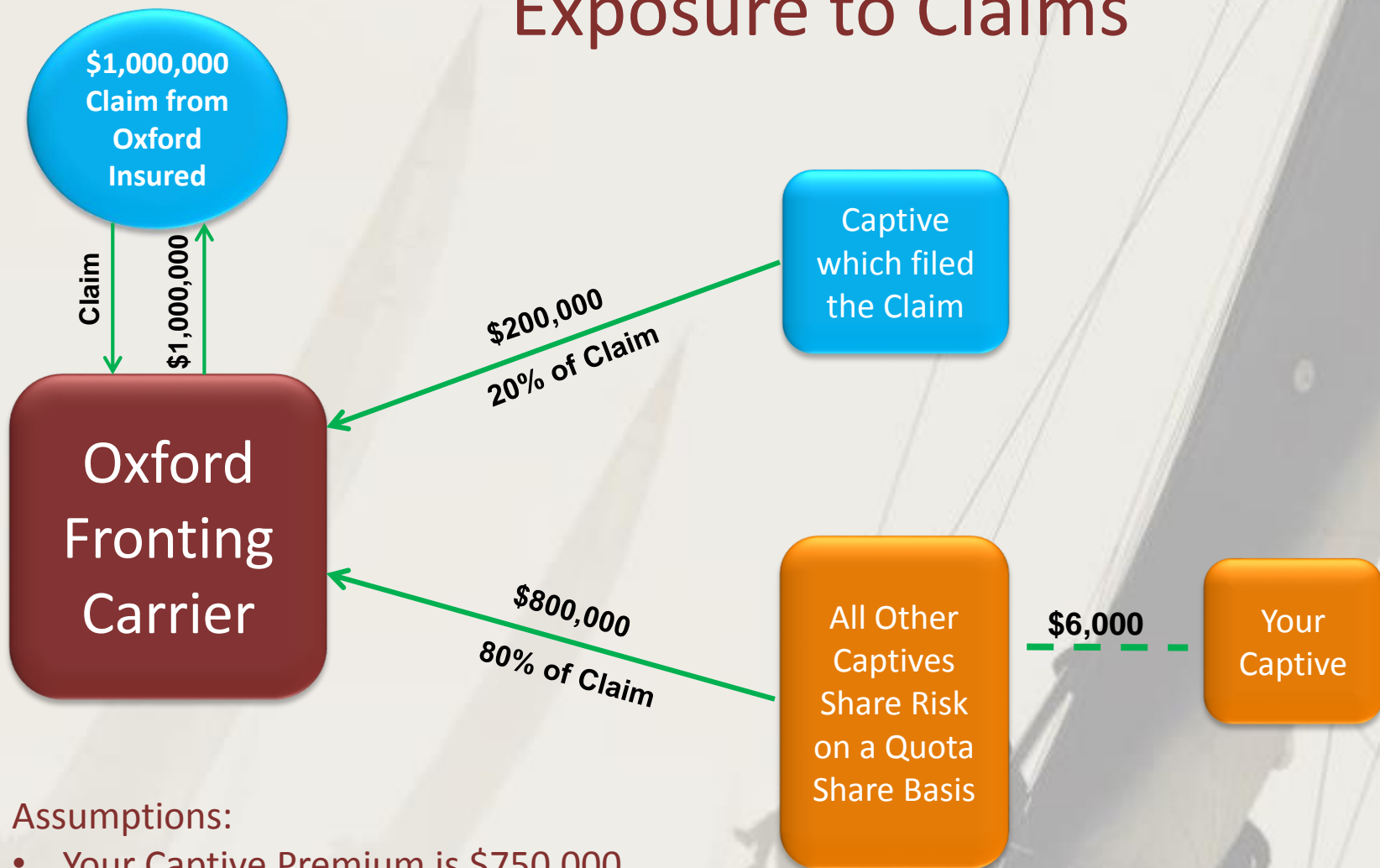
- Design with risk management as the primary focus
- Adhere to IRS Revenue Rulings and all available guidance
- Assure that the captive is operated as a bona fide property & casualty insurance company
- Underwrite policies that offer meaningful coverage at appropriate premium levels
- Avoid structures that are “too good to be true” in order to generate predictable results

How Does it Work?



*After Claims less Expenses

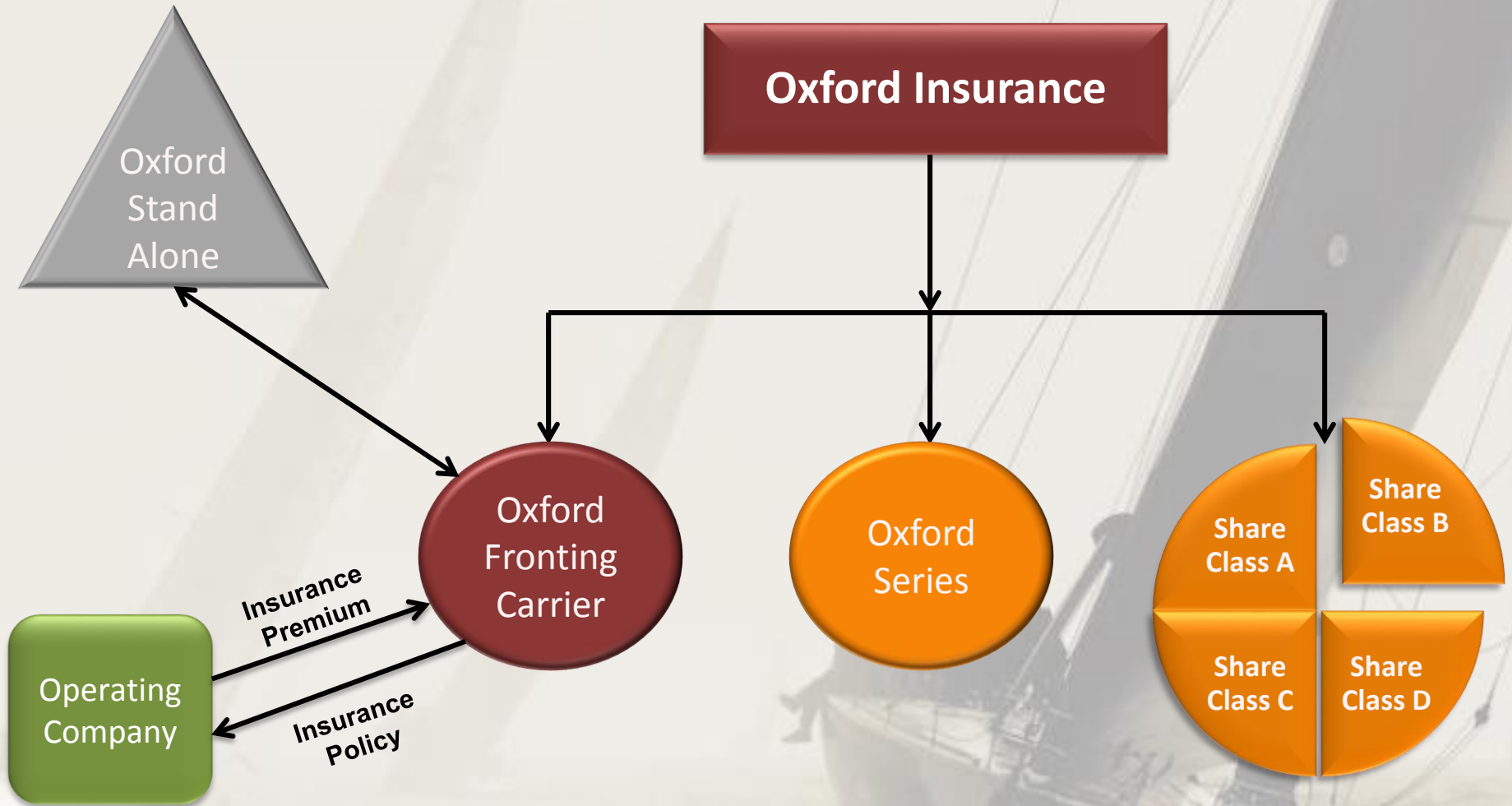
Exposure to Claims



Assumptions:

- Your Captive Premium is \$750,000
- Total Written Premium = \$100MM
- Your Quota Share of Claim Pool = 0.0075
- Your Captive is Responsible for \$6,000

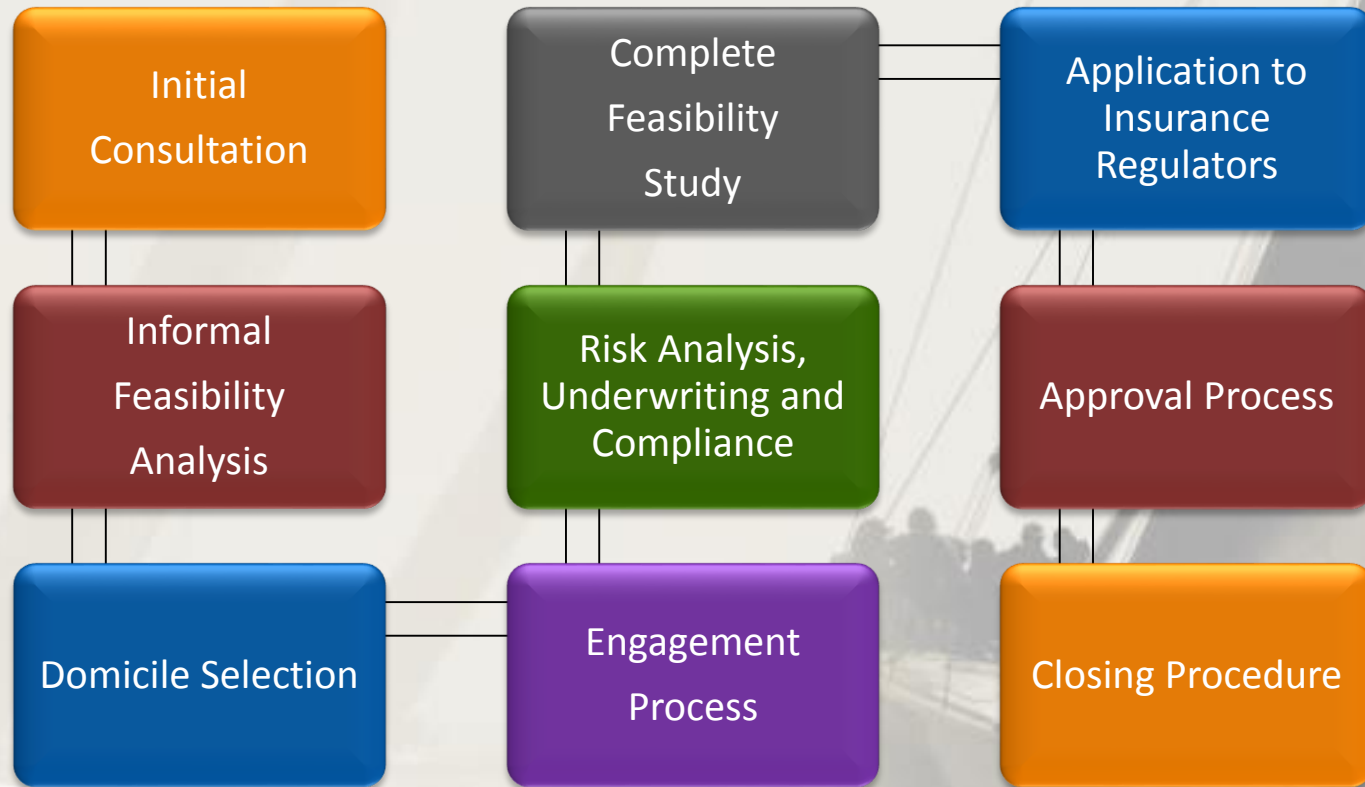
Oxford Structures



IRS Scrutiny of Abusive Structures

- Not Following the Safe Harbor Guidelines
- No Real Distribution of Risk
- No Claims Experience or Claims Layering
- High Deductible Risk Pools or Retroactive Policy Issuance
- Lack of Business Purpose
- Implementing a Captive to Obtain Tax Deductible Life Insurance
- Tax Opinion Written by an Interested Party
- Insuring Unreasonable Risks
- Paying Excessive Premium for your Coverage
- Treating Captive Assets as a Personal Checkbook
- Circular Transactions
- Investment Plans that Don't Make Sense

Captive Implementation Process



Captive Advisory Group



Third Party Review and Analysis

- Independent Third Party Risk Analysis
 - Coverage Chart
 - Gap Identification
 - Total Cost of Risk (TCOR) Analysis
 - Enterprise Risk Exposure Review
- Risk Selection
 - Identify Relevant Coverage
 - Avoid Duplicate Coverage
- Independent Third Party Actuarial Analysis
 - Rate Promulgation
 - Peer Review of Pricing Methodology
 - Feasibility Study

Underwriting

- Assemble Current Insurance Information
 - Review Current Policies and Endorsements
 - Analyze Five Year Loss Runs
 - Three Year Summary of Coverage
 - Identify Trends in Premium History
- Underwriting
 - Understanding the operating company
 - Discuss reasonable coverage applicable to industry and unique business
 - Identify Self-Insured Exposures
 - Identify Uninsured Loss Experience
- Adequacy of Policy Limits

Client Profile

- Annual Revenue \$3MM+
- Enterprise Risk Exposure
- Willing to invest time to explore risk management solutions
- Sophisticated business owner
- Across All Industries:
 - Agriculture
 - Automobile
 - Construction
 - Entertainment/Professional Athlete
 - Medical
 - Real Estate
 - IT
 - Oil Drilling
 - Manufacturing