

BUSINESS INSURANCE

Cell Company Overview and Innovative Applications

2018 World Captive Forum
January 31 – February 2, 2018
Fort Lauderdale, FL

#WorldCaptiveForum

Presenters:

Les Boughner

Chairman

Advantage Insurance Management LLC

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Vermont Dept. of Insurance

Eric Halter

Director Alternative Markets

AF Group

RENT - A - CAPTIVE



RENT - A - CAPTIVE

- Assets and Liabilities “Technically” Comingled
- Stop – Loss Protection purchased for each account.
- Designed to be a Matched Portfolio.

PROTECTED CELL COMPANY



PROTECTED CELL COMPANY

- PCC / SPC / SAC
- ONE SINGLE LEGAL ENTITY.
 - Cell (PCC) is not a separate entity.
 - Assets are owned by the PCC itself and not by the individual cells.
 - Cells cannot contract with each other.
- GOVERNANCE
 - Managed in accordance with its operating agreement.
 - Directors have a Duty to inform external parties they are dealing with a PCC.

INCORPORATED CELL COMPANY



INCORPORATED CELL LEGISLATION

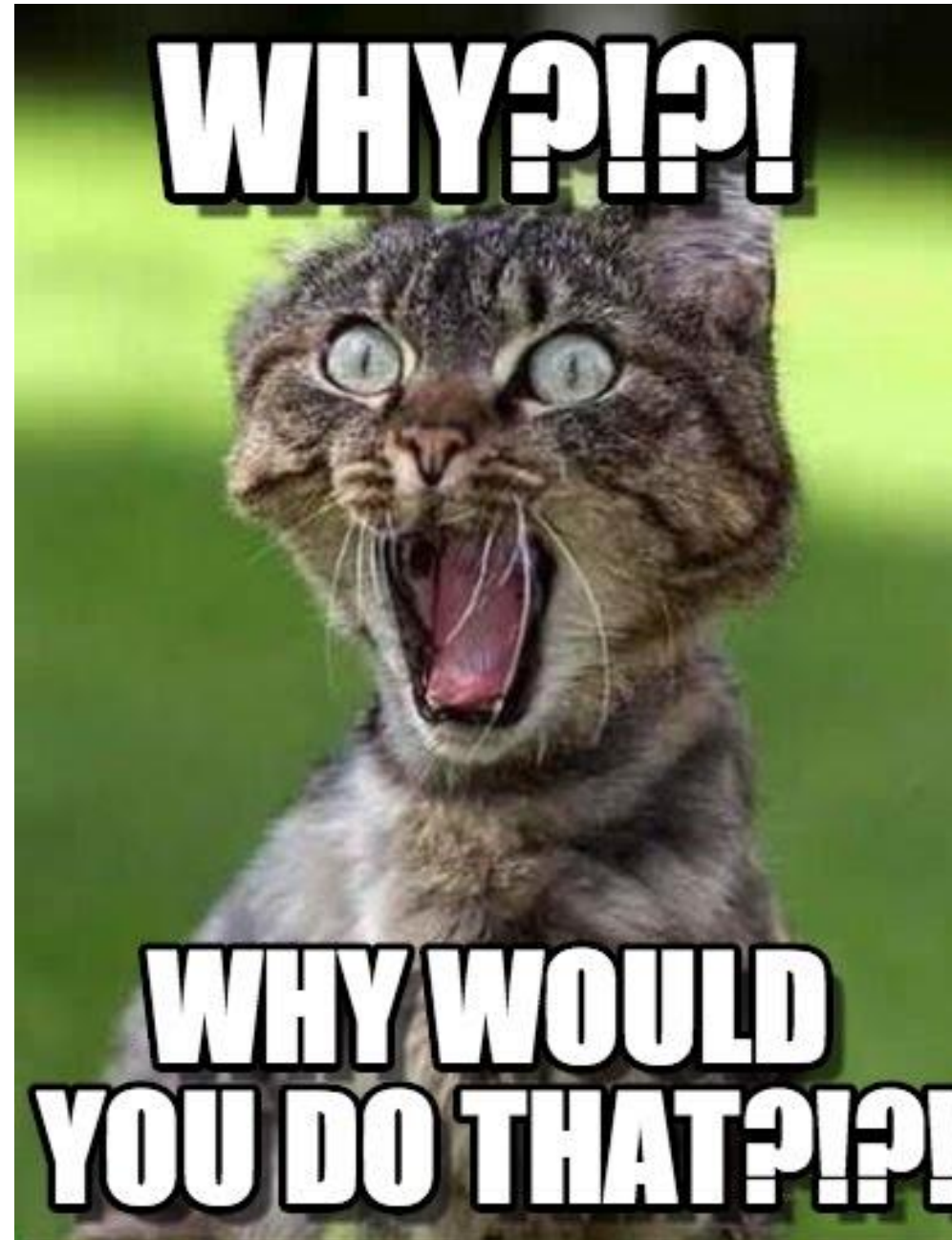
- Expanded PCC Legislation.
- ICC – Legally Recognized Entity.
 - Distinct and Separate.
- Insurance Regulator will require the ICC to meet the standard requirements of a standalone Captive.

SERIES LLC



SERIES LLC

- Delaware 1996 – Series LLC.
- First Captive Licensed in Delaware in 2010.
- Delaware Law updated in 2015.
 - Series Captive Insurance Company
- Operational Cost efficiencies.
 - Premium taxes.
 - Audits.
 - Actuarial Reviews.







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CLARITY

*know what you're really
getting yourself into*



**BUSINESS
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Organizations Represented:

- AF Group

- \$1.4B of workers' compensation writings
- Five primary brand entities:
 - Accident Fund Insurance Company of America
 - United Heartland
 - CompWest
 - Third Coast Underwriters
 - AF Specialty
- National footprint
- AM Best A(-) Positive Outlook

- AF Specialty

- Commercial multi-line fronting
- Captive support
- Fronting strengths:
 - A(-) Positive Outlook rated carriers with broad licensing in the majority of the states with no channel conflict outside of workers' compensation
 - Strong capital position
 - Ability to take risk
 - Strong reinsurance support
- Future E & S capacity
- Wide risk appetite
- Strong core insurance resources

AF Specialty Use of Captives

- To provide our 2,500 agents with a defensive posture for those accounts on renewal that have been provided a captive solution by a competing Agent.;
- To enhance the reinsurance structure for fronting arrangements entered in to by AF Specialty;
- To provide our 2,500 agents an ability to form captives for their qualifying Insureds for non-workers' compensation exposures;
- To enhance larger agency profitability, agency captives; and
- To provide a trusted partner to step-in to those opportunities needing a new captive manager or captive consulting services.

Existing Client – Defensive Posture on Renewal

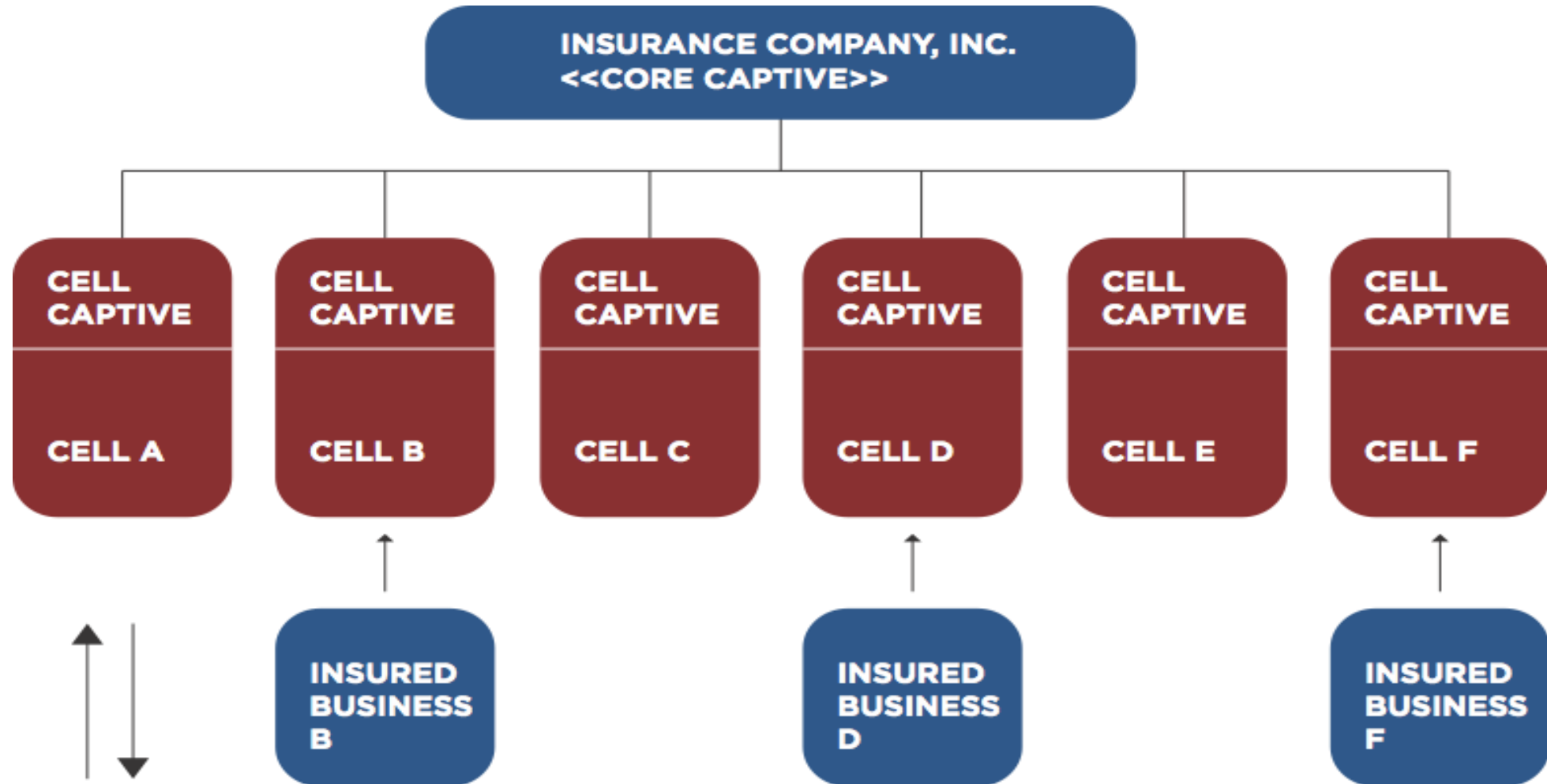
- Actual Client
 - Client since 2008
 - Workers' compensation exposure
 - Guaranteed Cost
 - Renewal premium \$3.5M
 - Loss experience superior
 - Established controls to minimize loss incurrence

Policy Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$ 470,512	\$ 470,512	\$ 45,483	9.7%
2009	828,491	828,491	4,364	0.5%
2010	1,103,021	1,103,021	572,978	51.9%
2011	1,331,595	1,331,595	144,004	10.8%
2012	1,827,220	1,827,220	324,592	17.8%
2013	2,459,133	2,459,133	332,639	13.5%
2014	2,518,782	2,518,782	430,984	17.1%
2015	2,908,492	2,908,492	163,578	5.6%
2016	3,337,082	1,882,177	115,800	6.2%
Totals	\$ 16,784,328	\$ 15,329,423	\$ 2,134,423	13.9%

Existing Client – Defensive Posture on Renewal

Fiscal Year			2012	2013	2014	2015	2016	2017
	Notes							
Estimated (Est) / Actual (Act) / Current Year (CY)			Act	Act	Act	Act	CY	Est
Gross Premium	A		\$ 1,827,220	\$ 2,459,133	\$ 2,518,782	\$ 2,908,492	\$ 3,337,082	\$ 3,500,000
Losses as of the report date: 01/27/2017	B		324,592	332,639	430,984	163,578	430,049	451,044
Ultimate Incurred Loss Ratio (No IBNR)	C		17.8%	13.5%	17.1%	5.6%	12.9%	12.9%
Cost Comparison								
Guaranteed Cost	L		\$ 1,827,220	\$ 2,459,133	\$ 2,518,782	\$ 2,908,492	\$ 3,337,082	\$ 3,500,000
Cost After Utilization of Captive	M		\$ 1,200,874	\$ 1,473,797	\$ 1,589,745	\$ 1,528,347	\$ 1,965,322	\$ 2,059,160
Policy Year Savings			\$ 626,346	\$ 985,336	\$ 929,037	\$ 1,380,145	\$ 1,371,760	\$ 1,440,840
Cumulative Guaranteed Cost	N		\$ 1,827,220	\$ 4,286,353	\$ 6,805,135	\$ 9,713,627	\$ 13,050,709	\$ 16,550,709
Cumulative Captive Cost	O		1,200,874	2,674,671	4,264,416	5,792,763	7,758,085	9,817,245
Cumulative Savings Utilizing A Captive	P		626,346	1,611,682	2,540,719	3,920,864	5,292,624	6,733,464

Existing Client – Defensive Posture on Renewal



Existing Client – Defensive Posture on Renewal

Description	QUOTA SHARE		
	Total Program	Program	AF
Estimated Premium	\$ 3,500,000	\$ 3,150,000	\$ 350,000
Quota Share	100.0%	90.0%	10.0%
Aggregate	75.0%	75.0%	
Program Expenses	40.0%	40.0%	
Attachment Point	60.0%	60.0%	
Aggregate - \$	\$ 2,625,000	\$ 2,415,000	\$ 210,000
Ceded Premiums - \$		\$ 3,150,000	
Program Expense - \$		1,260,000	
Net Ceded Premium - \$		\$ 1,890,000	
Aggregate Liability		\$ 2,415,000	
Net Ceded Premium (Loss Fund)		1,890,000	
Gap to Collateralize		\$ 525,000	
Collateral As a % of Gross Premium		15.0%	
Collateral As a % of Ceded Premium		16.7%	

Existing Client – Defensive Posture on Renewal

	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Loss Ratio	30.00%	40.00%	50.00%	60.00%	70.00%	75.00%
Underwriting Income						
Premiums Earned	\$ 3,150,000	\$ 3,150,000	\$ 3,150,000	\$ 3,150,000	\$ 3,150,000	\$ 3,150,000
Underwriting Expenses						
Program expenses	1,260,000	\$ 1,260,000	\$ 1,260,000	\$ 1,260,000	\$ 1,260,000	\$ 1,260,000
Claim incurred	945,000	1,260,000	1,575,000	1,890,000	2,240,000	2,415,000
Net Underwriting Income	\$ 945,000	\$ 630,000	\$ 315,000	\$ -	\$ (350,000)	\$ (525,000)
Net Underwriting Margin	30.0%	20.0%	10.0%	0.0%	-11.1%	-16.7%
Administration Expenses						
Captive management fee	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Premium Tax	-	-	-	-	-	-
Government Fee	1,220	1,220	1,220	1,220	1,220	1,220
Audit Fee	5,000	5,000	5,000	5,000	5,000	5,000
Miscellaneous Charges	37,000	37,000	37,000	37,000	37,000	37,000
Letter of Credit	-	-	-	-	-	-
Income from Insurance Operations	\$ 876,780	\$ 561,780	\$ 246,780	\$ (68,220)	\$ (418,220)	\$ (593,220)
Net Underwriting Margin	27.8%	17.8%	7.8%	-2.2%	-13.3%	-18.8%
Collateral Placed for Securitization of GAP	\$ 525,000	\$ 525,000	\$ 525,000	\$ 525,000	\$ 525,000	\$ 525,000
Reduction of Collateral for Loss Activity	-	-	-	-	(350,000)	(525,000)
Collateral Remaining	\$ 525,000	\$ 525,000	\$ 525,000	\$ 525,000	\$ 175,000	\$ -

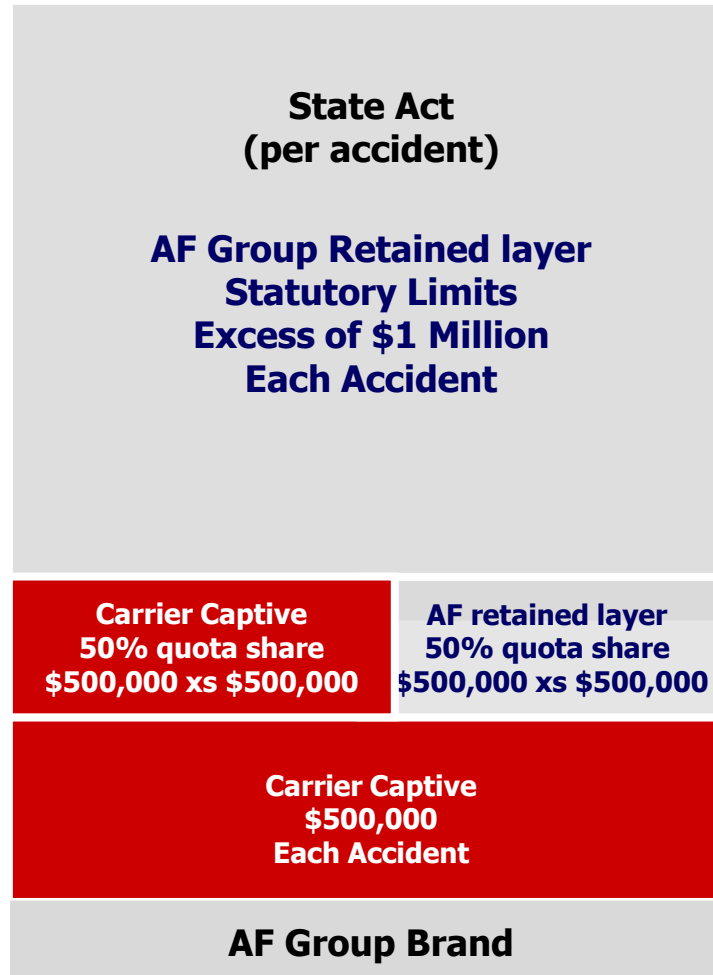
Existing Client – Defensive Posture on Renewal

	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Loss Ratio	30.00%	40.00%	50.00%	60.00%	70.00%	75.00%
<u>Total Initial Cost of Program</u>						
Premium- Gross Basis	\$ 3,500,000.00	\$ 3,500,000.00	\$ 3,500,000.00	\$ 3,500,000.00	\$ 3,500,000.00	\$ 3,500,000.00
Captive Formation	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00
Annual Management Fees	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00
Annual Captive Admin Cost	18,220.00	18,220.00	18,220.00	18,220.00	18,220.00	18,220.00
Assessments/Expense Constant						
Total Costs	\$ 3,568,220.00	\$ 3,568,220.00	\$ 3,568,220.00	\$ 3,568,220.00	\$ 3,568,220.00	\$ 3,568,220.00
Collateral Erosion	\$ -	\$ -	\$ -	\$ -	\$ 350,000.00	\$ 525,000.00
Ultimate Cost of Insurance	\$ 2,623,220.00	\$ 2,938,220.00	\$ 3,253,220.00	\$ 3,568,220.00	\$ 3,918,220.00	\$ 4,093,220.00
Cost of Captive - annual	43,220.00	43,220.00	43,220.00	43,220.00	43,220.00	43,220.00
One time charge	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00

Reinsurance Support for Fronting Arrangements

- Insurance Carrier
- Workers' compensation exposure
- Program Premium \$40.0M
- Statutory Limits
- National footprint
- Marketing provided by Carrier MGA
- Underwriting provided by Carrier
- Claims to be provided by carrier
- Statutory reporting provided by AF Group
- Captive in Vermont
- Captive Management

Reinsurance Support for Fronting Arrangements

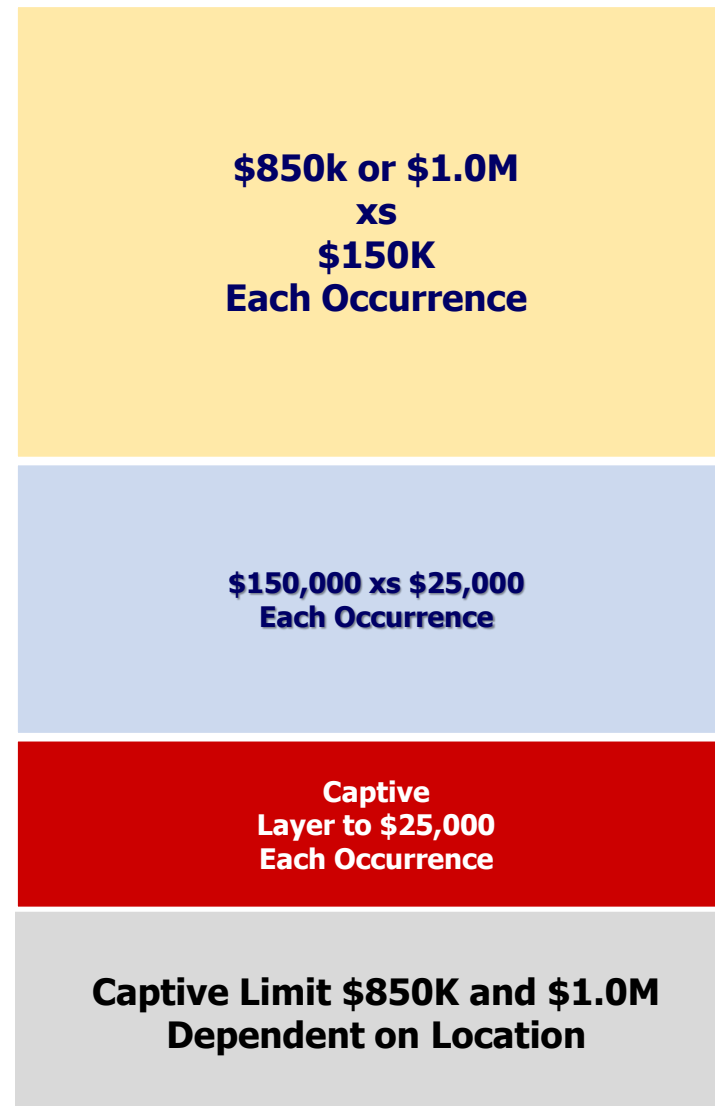


ALAE is pro rata
(subject to a maximum of \$500,000
Any one event)

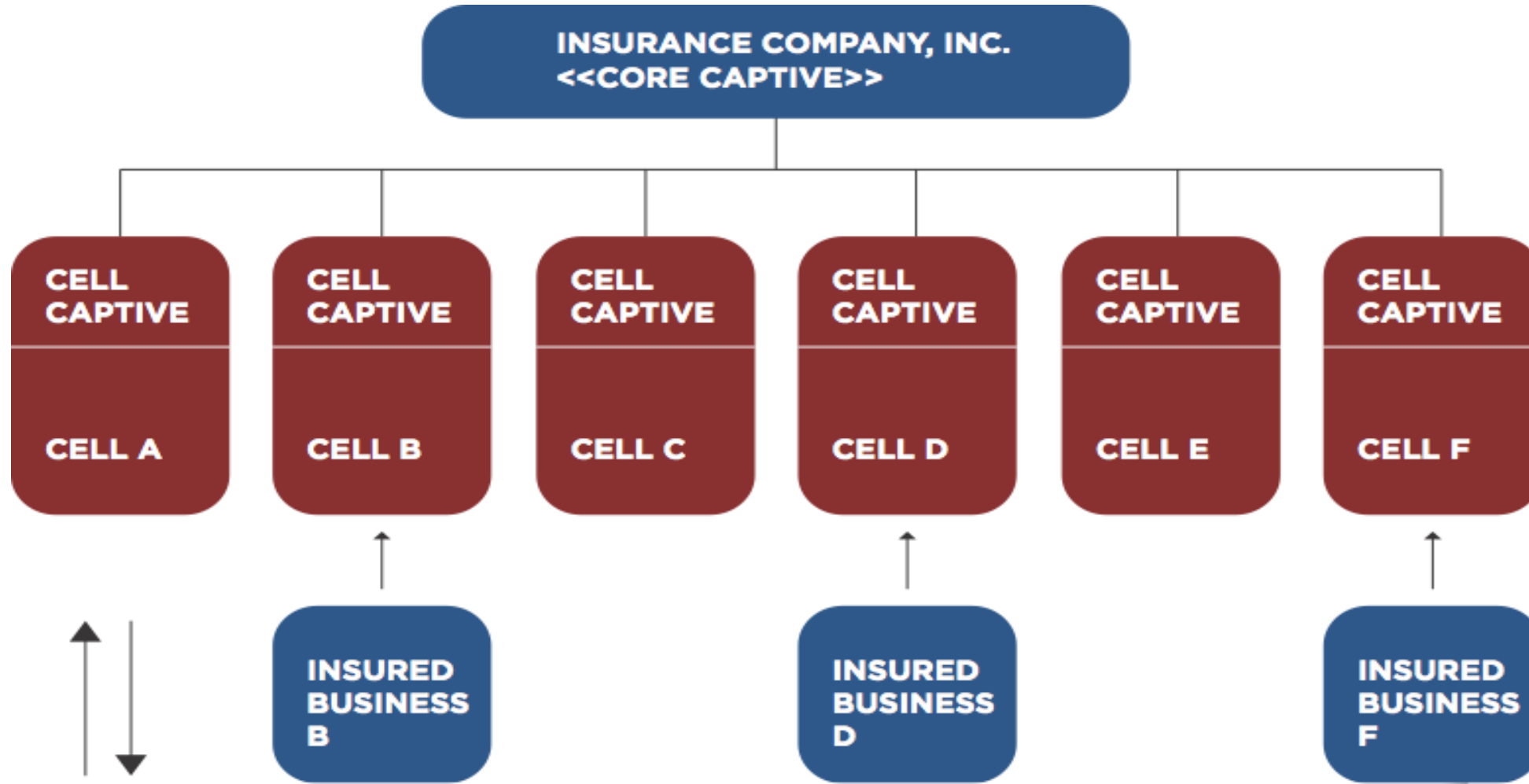
Reinsurance Support for Non-Workers' Compensation Exposure

- Current Workers' Compensation Insured
- Owns 1,500 franchise locations
- Initially seeking deductible reimbursement captive
- Economics of deal did not make the captive a viable option
- As alternative, AF Specialty Analyzed all traditional coverages
- All properties are leased
- Carrier supported property contents of each location
- Leases did not require AM Best rated paper
- Insured financially astute
- Captive formed to cover property contents replacing current carrier

Reinsurance Support for Non-Workers' Compensation Exposure



Reinsurance Support for Non-Workers' Compensation Exposure



AF Group Brand Agency Captives

- Qualification:

- Affiliated with Brand greater than 3 years
- Minimum premium volume \$3.0M
- Maximum loss ratio for 3 year period 40.0%
- Required to discontinue participation in Agency Profit Sharing Programs
- Workers' compensation only

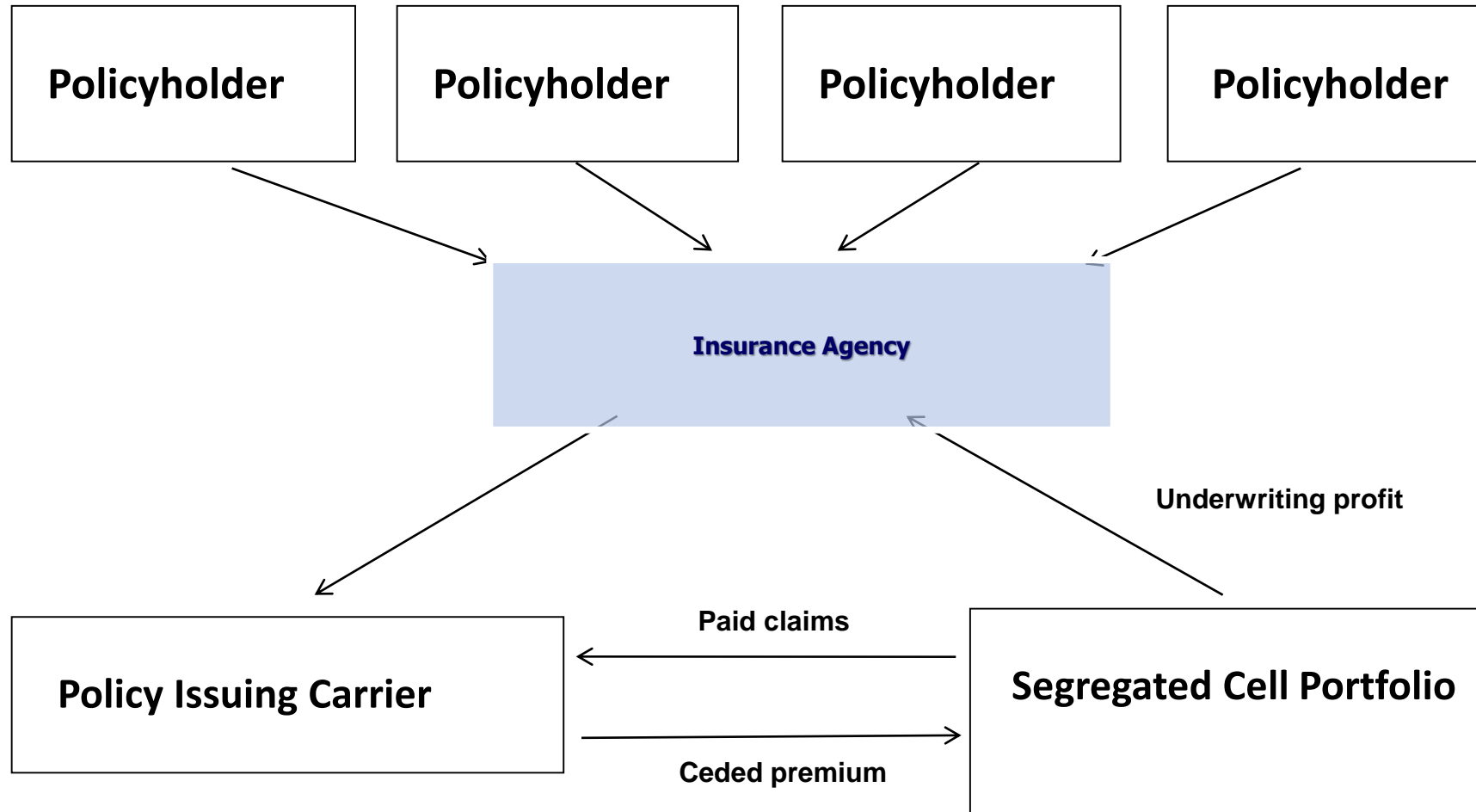
- Advantages:

- Financial alignment with the cedant carrier
- Share in the underwriting results from an established portfolio
- Ability to share in investment income generated by underwriting profitability
- Coverage Stability
- Cost Stability
- Alternatives for questionable risks
- Enhancement of Agency Profitability as an alternative to only commission income.

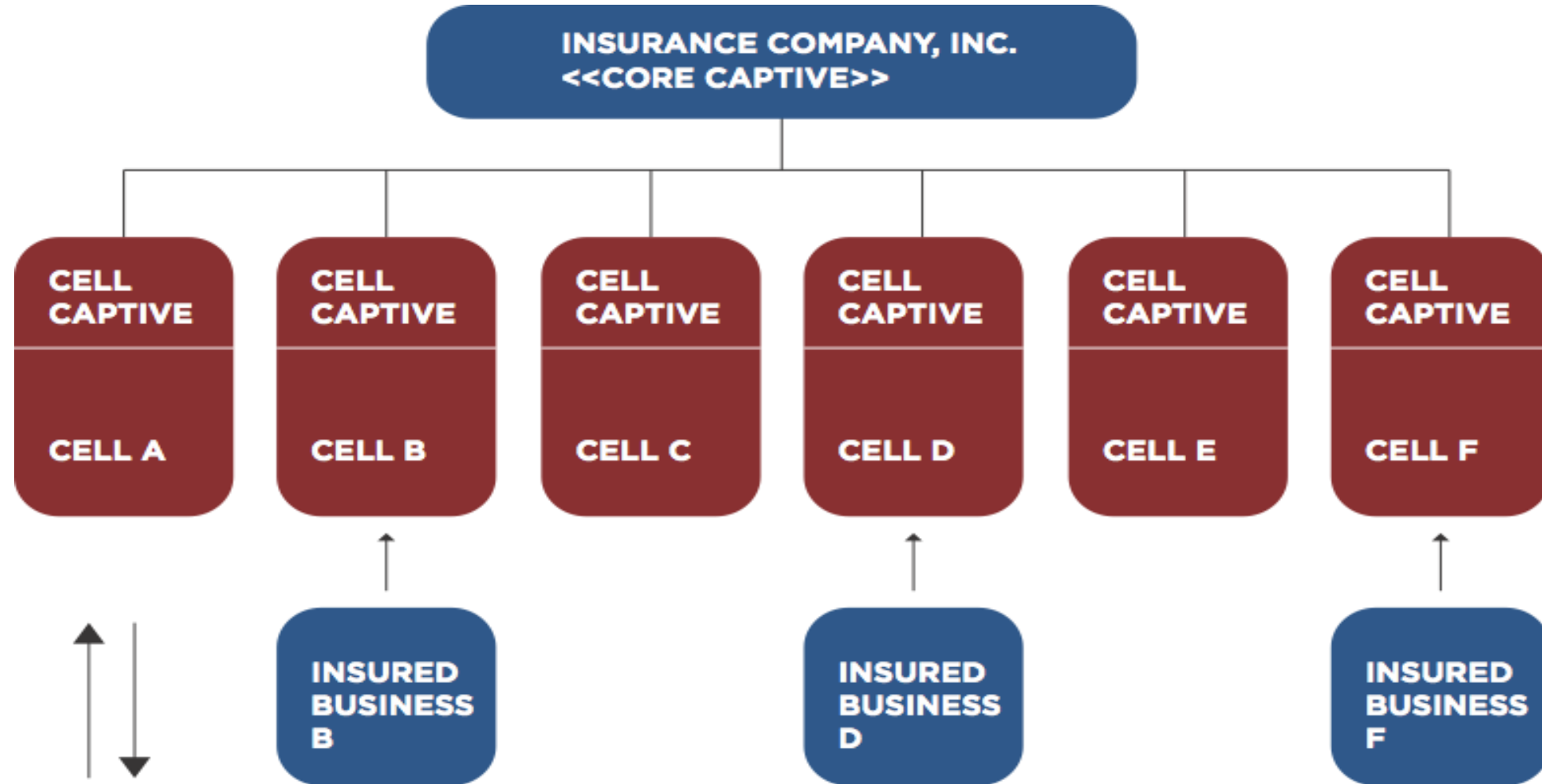
AF Group Brand Agency Captives

Policy Year	Written Premium	Earned Premium	Policy Count	Total Incurred	Incurred Loss Ratio
2007	\$ 59,177	59,177	2	16,128	27.3%
2008	643,153	643,153	36	148,501	23.1%
2009	838,985	838,985	74	145,977	17.4%
2010	1,298,933	1,298,933	108	879,904	67.7%
2011	1,001,882	1,001,882	105	550,373	54.9%
2012	1,297,340	1,297,340	115	197,969	15.3%
2013	1,658,419	1,658,419	121	281,806	17.0%
2014	2,151,368	2,151,368	133	810,771	37.7%
2015	2,613,177	2,613,177	157	852,611	32.6%
2016	2,683,303	2,683,303	165	577,868	21.5%
2017	2,807,282	1,199,924	209	246,641	20.6%
Totals	\$ 17,053,019	\$ 15,445,661	1,225.0	\$4,708,549	30.5%
Last 3 yrs.	\$ 8,103,762	\$ 6,496,404	531.0	\$1,677,120	25.8%

AF Group Brand Agency Captives



AF Group Brand Agency Captives



AF Group Brand Agency Captives

Description	QUOTA SHARE		
	Total Program	Program	AF
Estimated Premium	\$ 3,000,000	\$ 1,500,000	\$ 1,500,000
Quota Share	100.0%	50.0%	50.0%
Aggregate	73.0%	73.0%	
Program Expenses	42.0%	42.0%	
Attachment Point	58.0%	58.0%	
Aggregate - \$	\$ 2,190,000	\$ 1,095,000	\$ 1,095,000
Ceded Premiums - \$		\$ 1,500,000	
Program Expense - \$		630,000	
Net Ceded Premium - \$		\$ 870,000	
Aggregate Liability		\$ 1,095,000	
Net Ceded Premium (Loss Fund)		870,000	
Gap to Collateralize		\$ 225,000	
Collateral As a % of Gross Premium		7.5%	
Collateral As a % of Ceded Premium		15.0%	

AF Group Brand Agency Captives

	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Loss Ratio	30.00%	40.00%	50.00%	60.00%	70.00%	75.00%
Underwriting Income						
Premiums Earned	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Underwriting Expenses						
Program expenses	630,000	\$ 630,000	\$ 630,000	\$ 630,000	\$ 630,000	\$ 630,000
Claim incurred	450,000	600,000	750,000	900,000	1,005,000	1,155,000
Net Underwriting Income	\$ 420,000	\$ 270,000	\$ 120,000	\$ (30,000)	\$ (135,000)	\$ (285,000)
Net Underwriting Margin	28.0%	18.0%	8.0%	-2.0%	-9.0%	-19.0%
Administration Expenses						
Captive management fee	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Premium Tax	3,375	3,375	3,375	3,375	3,375	3,375
Government Fee	1,220	1,220	1,220	1,220	1,220	1,220
Audit Fee	5,000	5,000	5,000	5,000	5,000	5,000
Miscellaneous Charges	25,000	25,000	25,000	25,000	25,000	25,000
Letter of Credit	-	-	-	-	-	-
Income from Insurance Operations	\$ 360,405	\$ 210,405	\$ 60,405	\$ (89,595)	\$ (194,595)	\$ (344,595)
Net Underwriting Margin	24.0%	14.0%	4.0%	-6.0%	-13.0%	-23.0%
Collateral Placed for Securitization of GAP	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
Reduction of Collateral for Loss Activity	-	-	-	(30,000)	(135,000)	(285,000)
Collateral Remaining	\$ 225,000	\$ 225,000	\$ 225,000	\$ 195,000	\$ 90,000	\$ (60,000)

Q & A

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