

# BUSINESS INSURANCE

## Selling Captives to the C-Suite



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

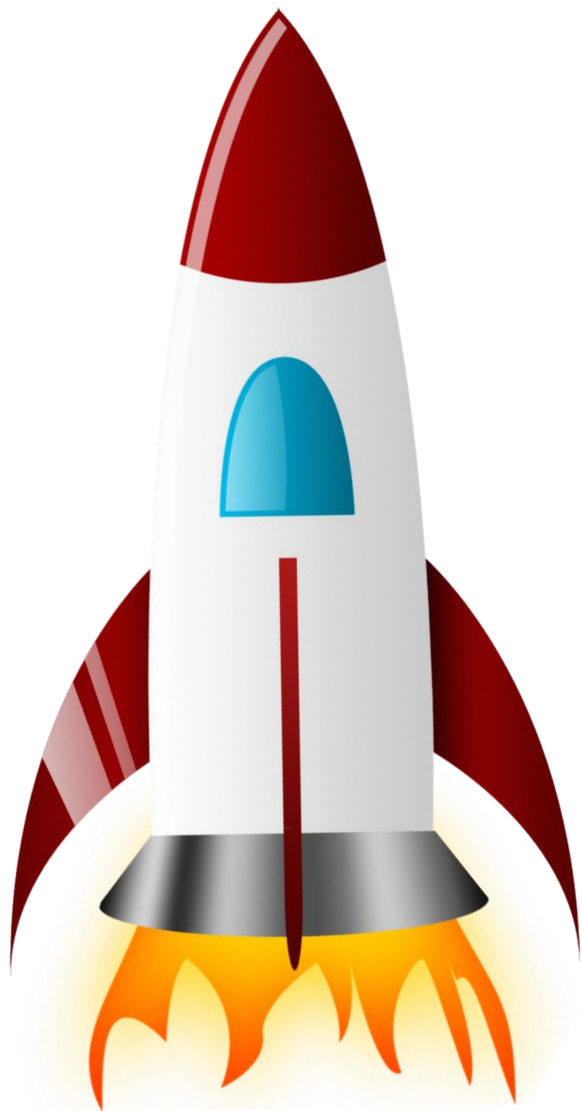
*#WorldCaptiveForum*

Presented By:

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Brandon Beane  
Risk Manager  
Coastal Construction



# **Red Rocket Manufacturing Company**

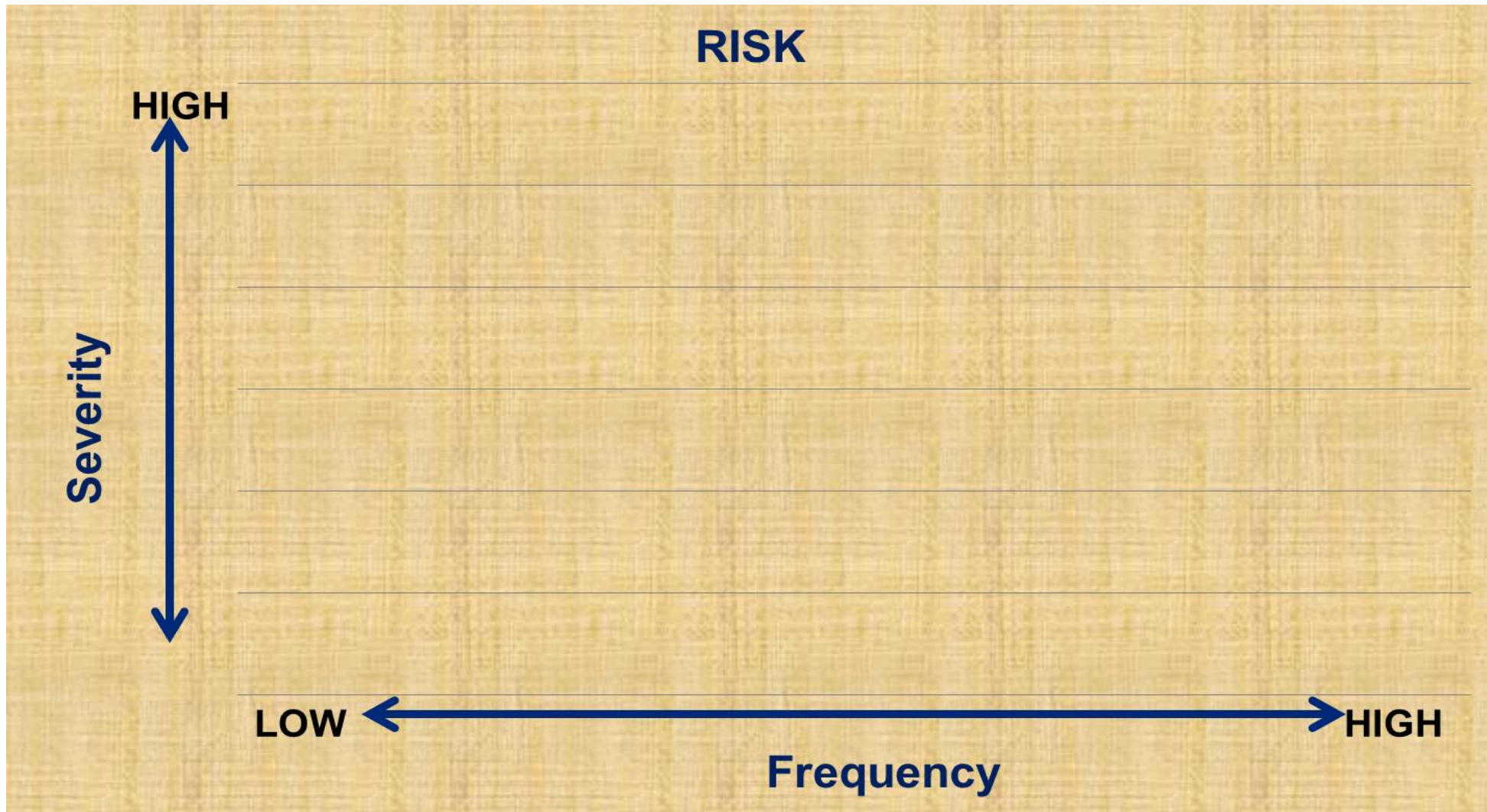
**BUSINESS  
INSURANCE**

**#WorldCaptiveForum**

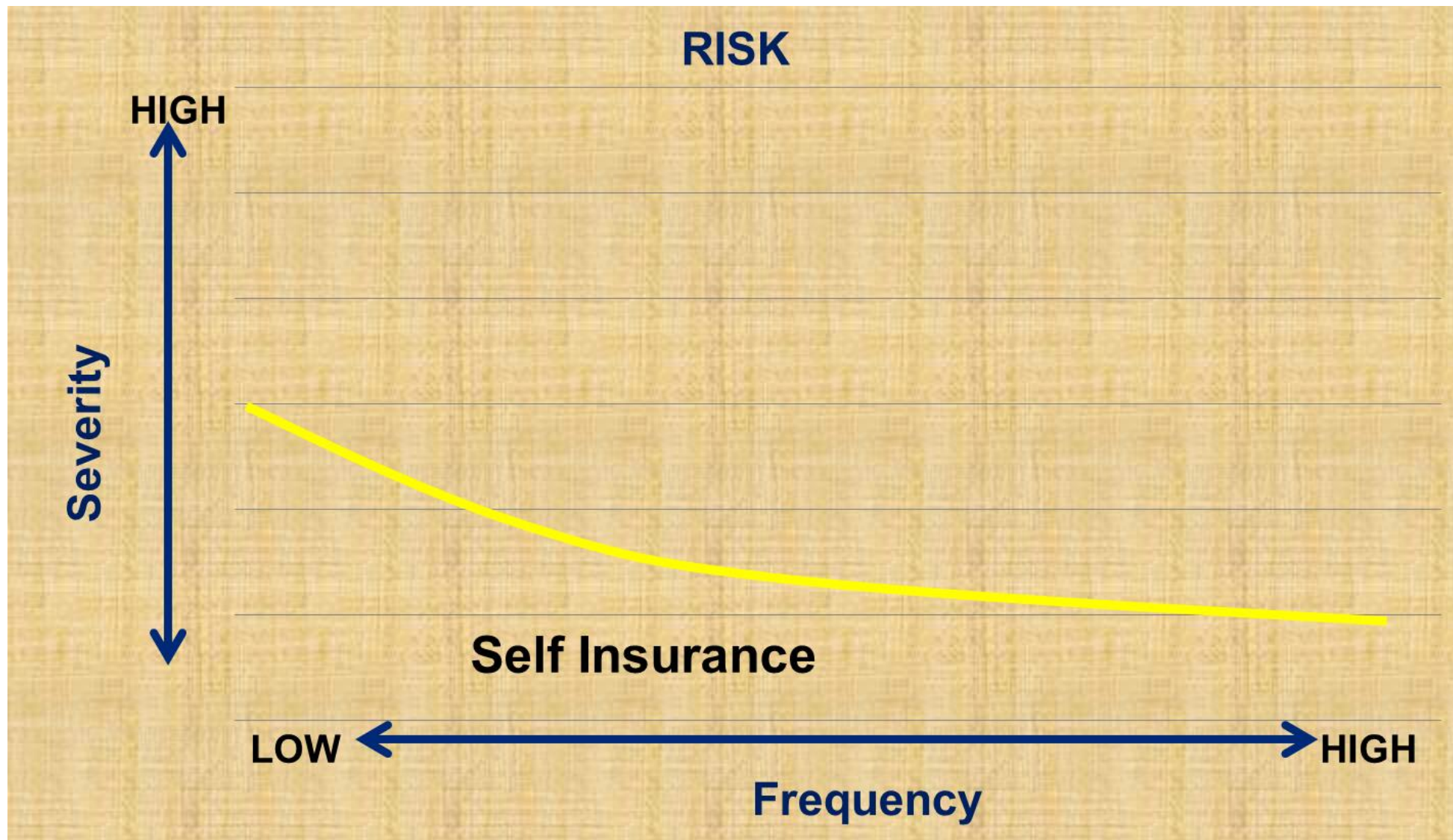
# Insurance

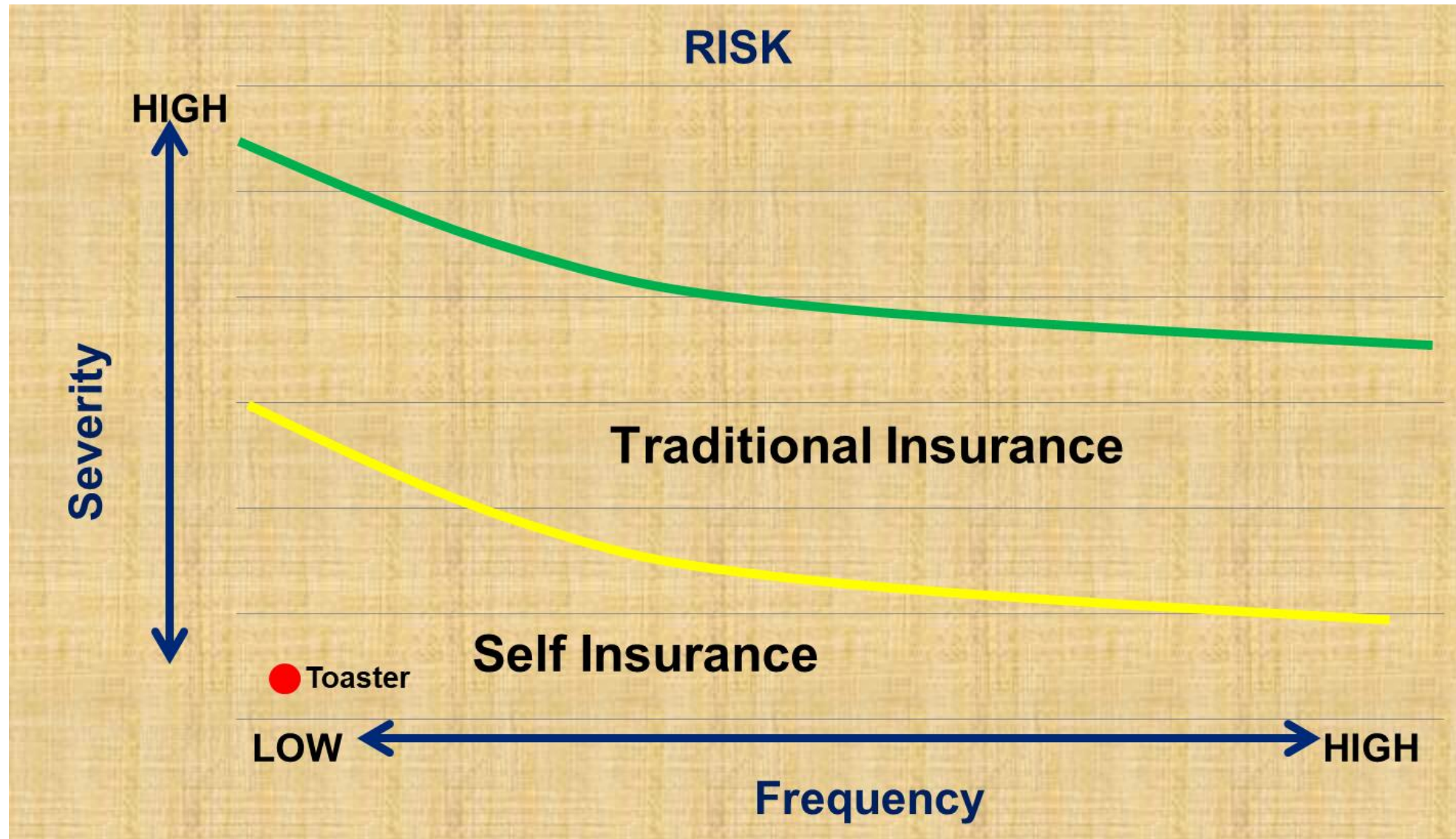


- Insurance is an Expense
- Insurance is my Third Largest Expenditure behind Raw Materials and Payroll
- Insurance is a Source of Capital
- \$10,000 Loss makes for a bad hour;  
\$100,000 Loss can make for a bad day;  
and a \$1,000,000 Loss is a bad quarter.....

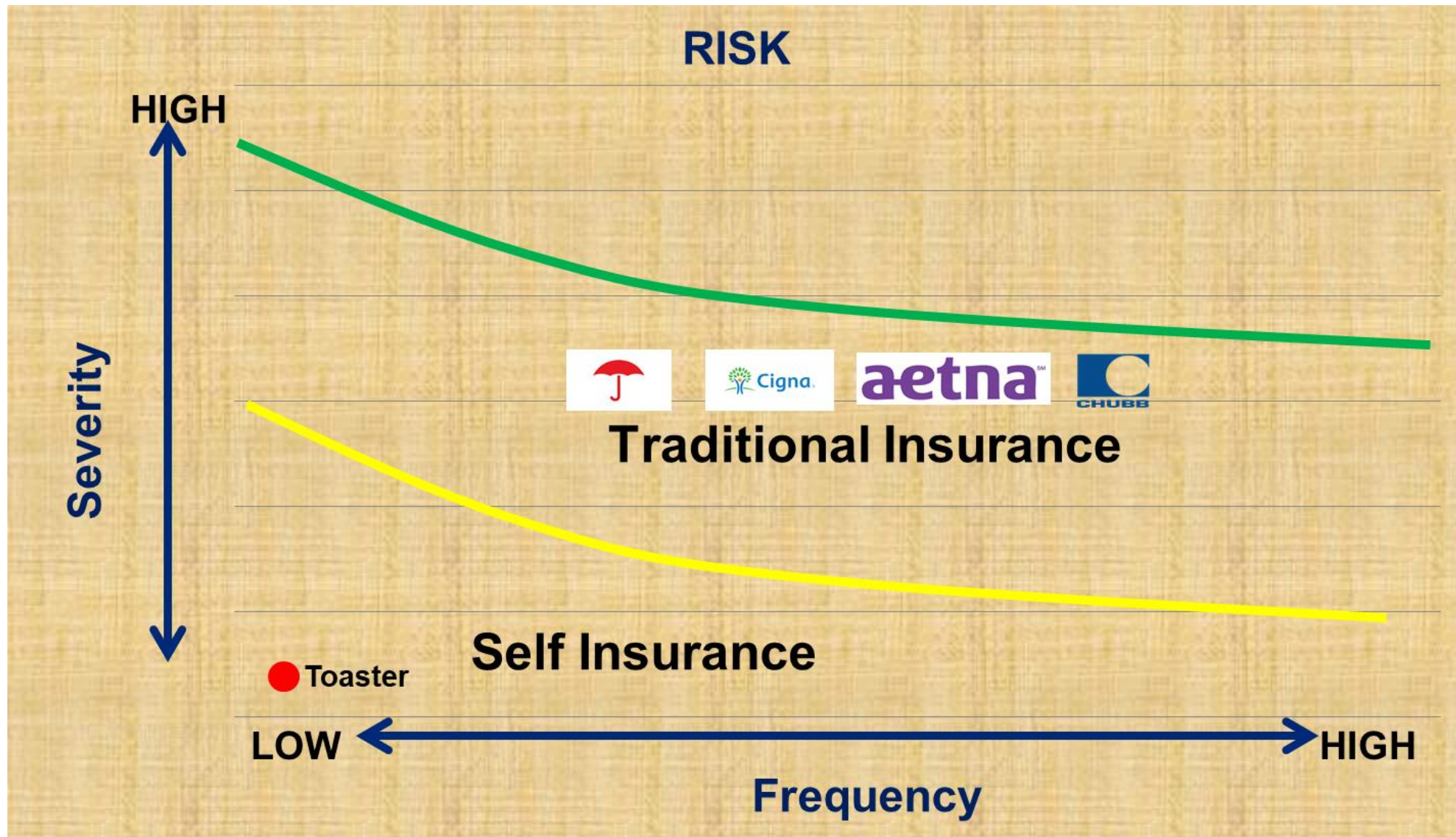




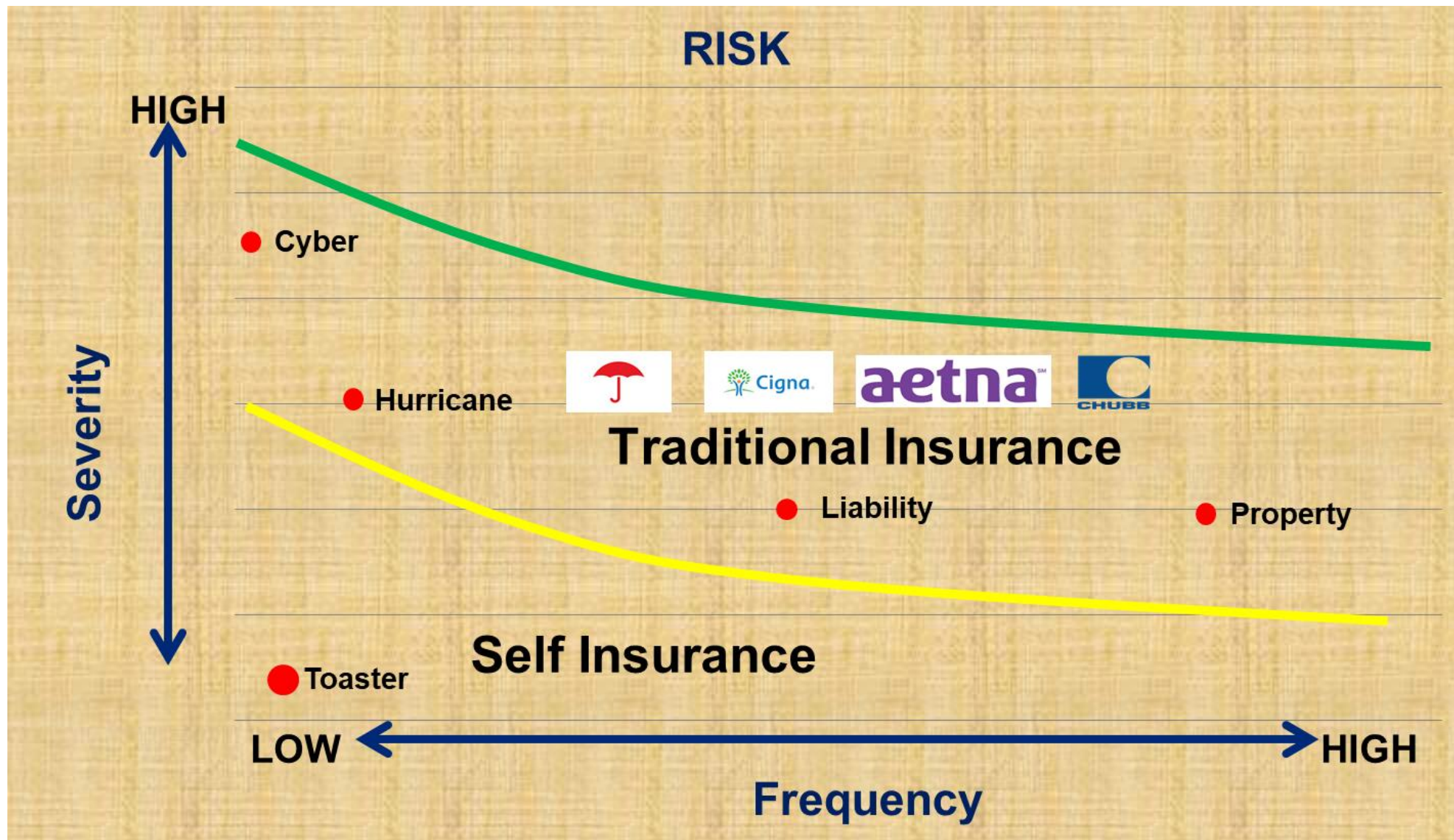




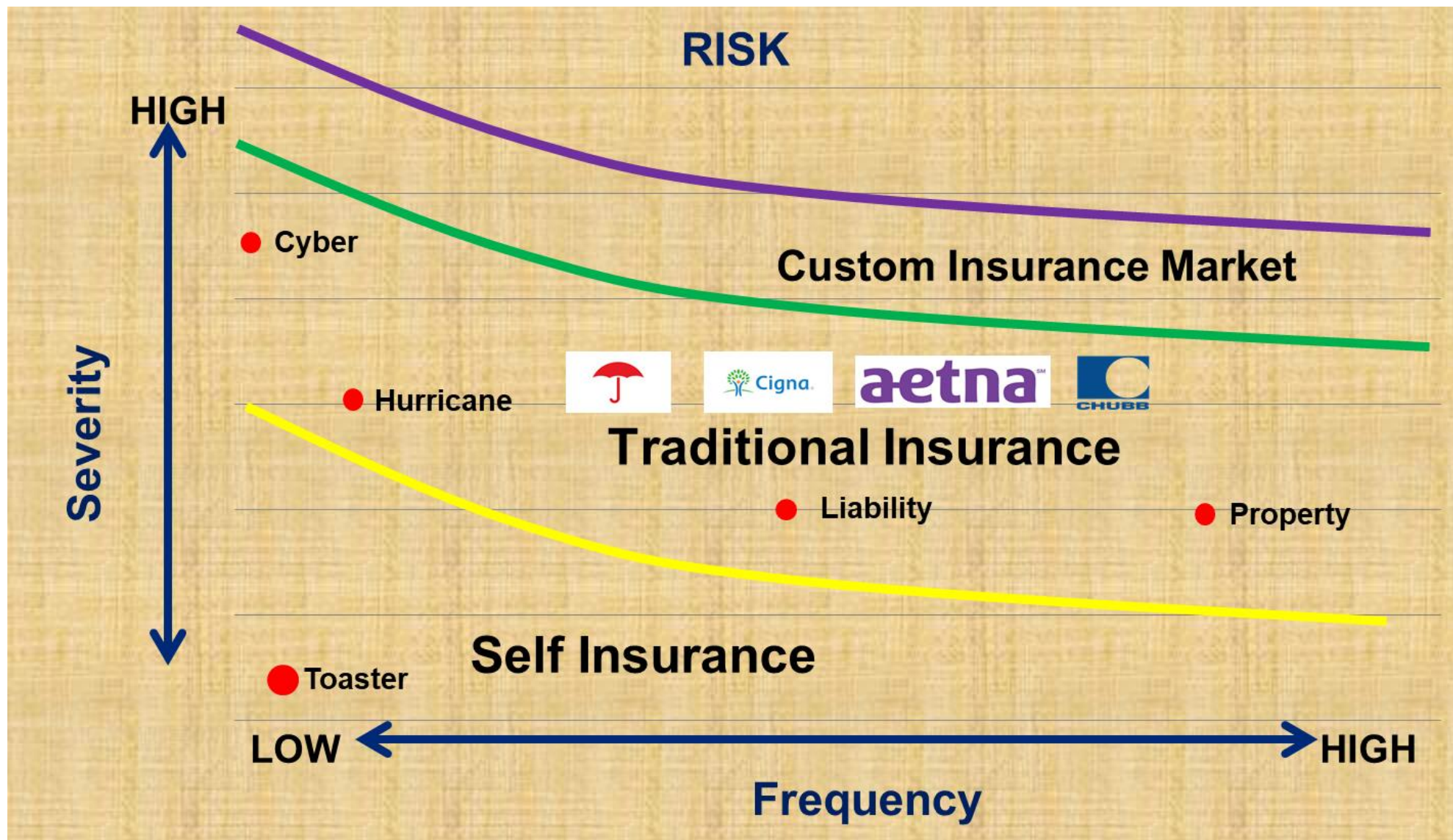




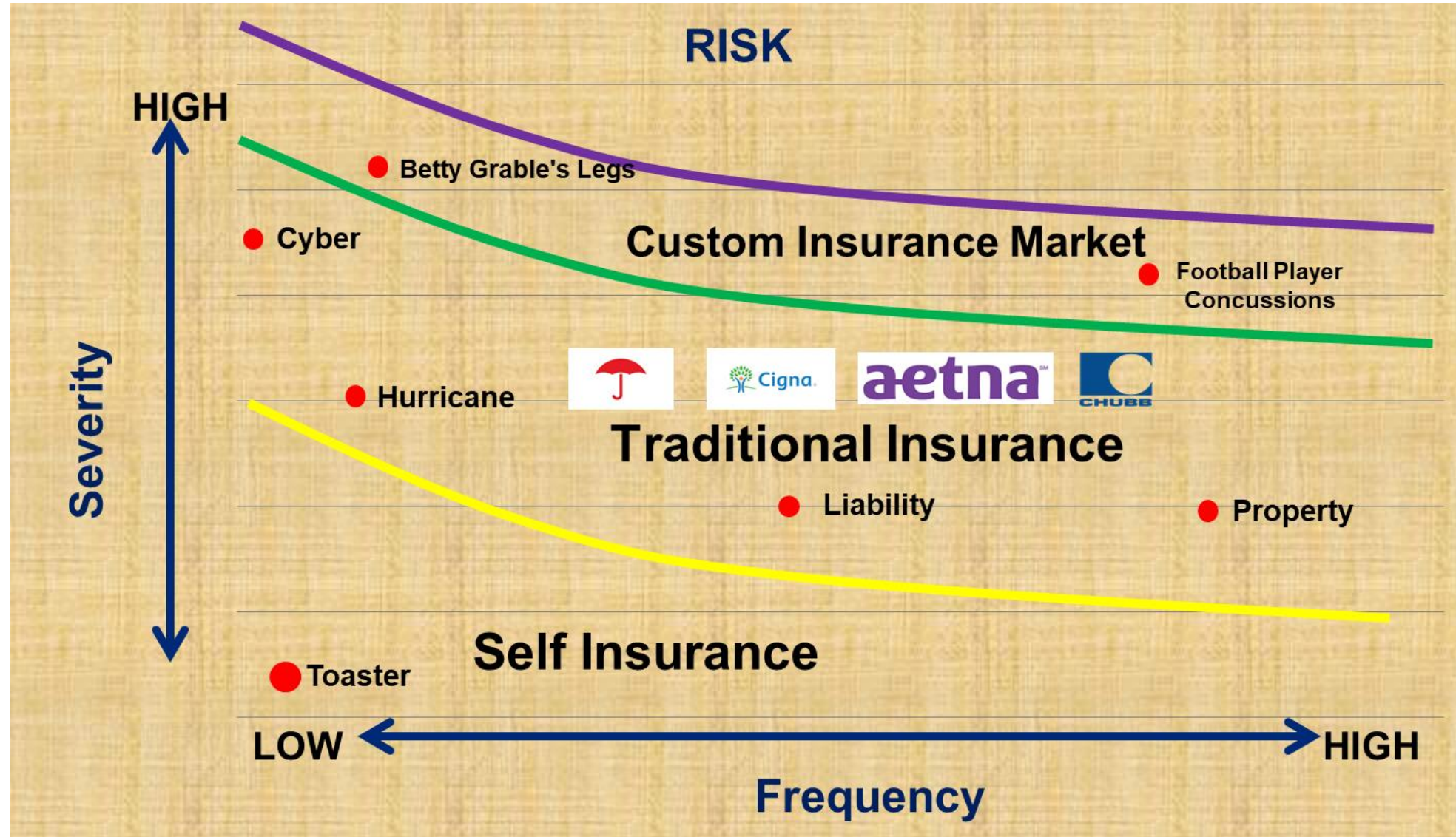




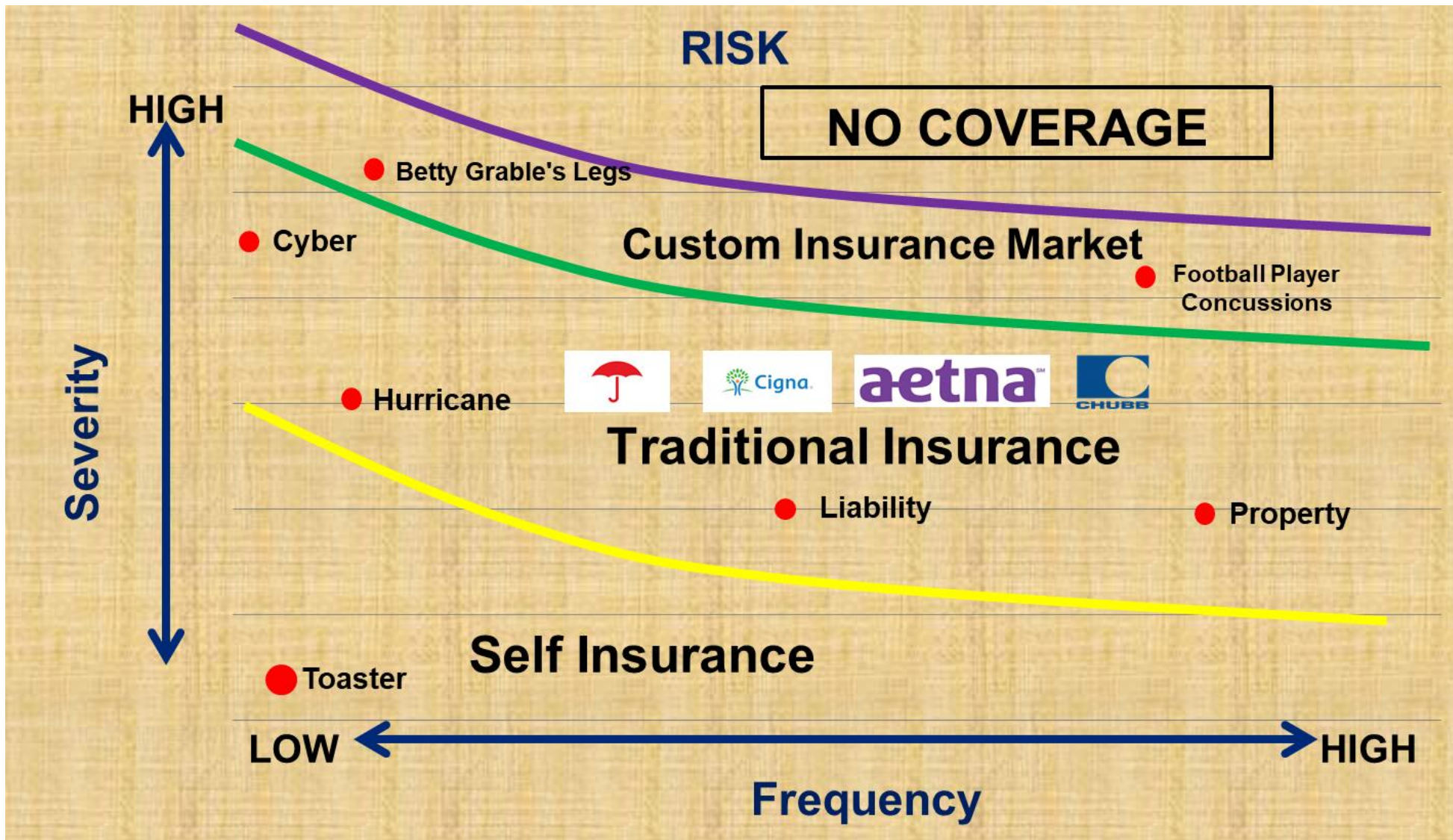




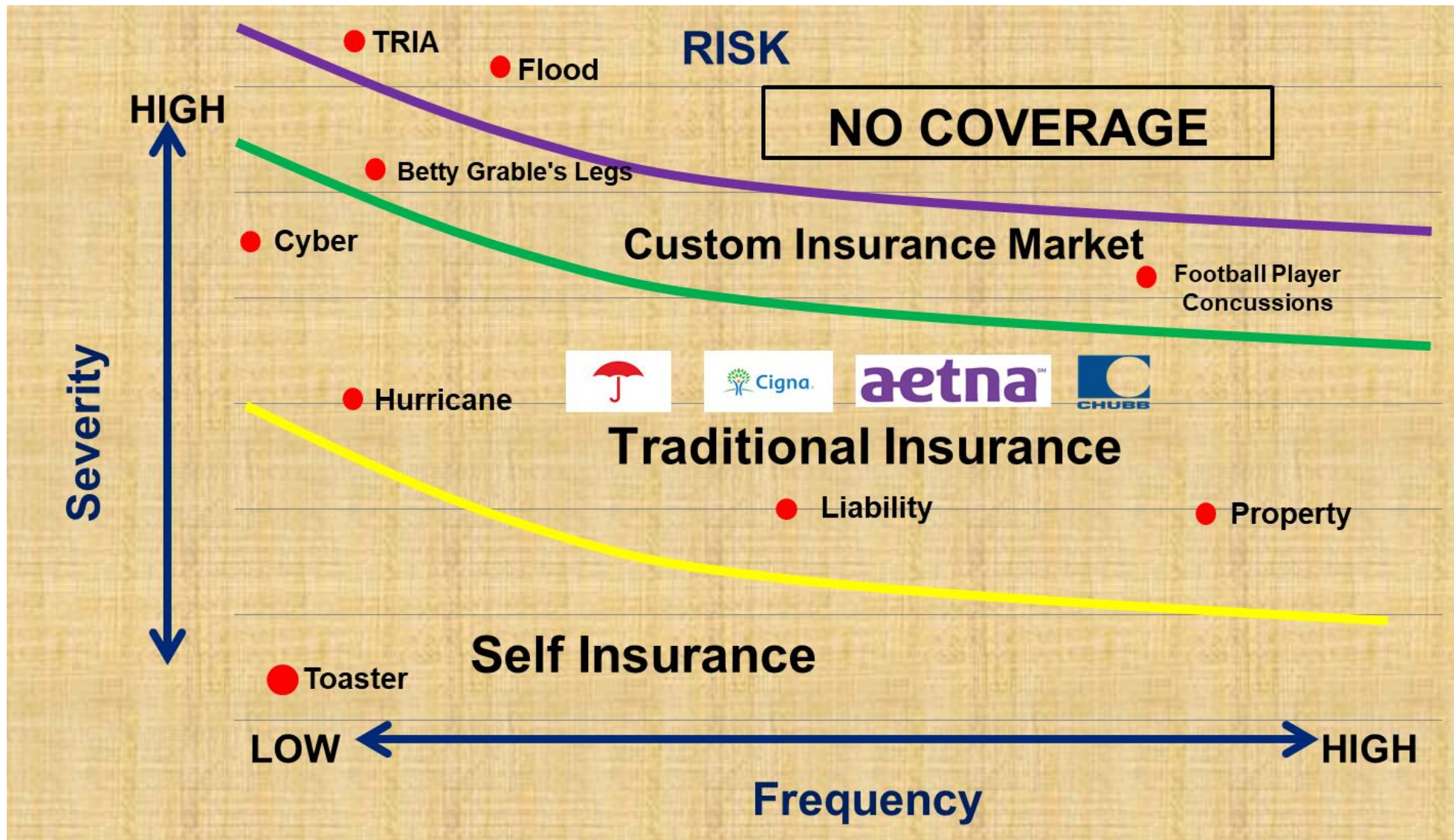




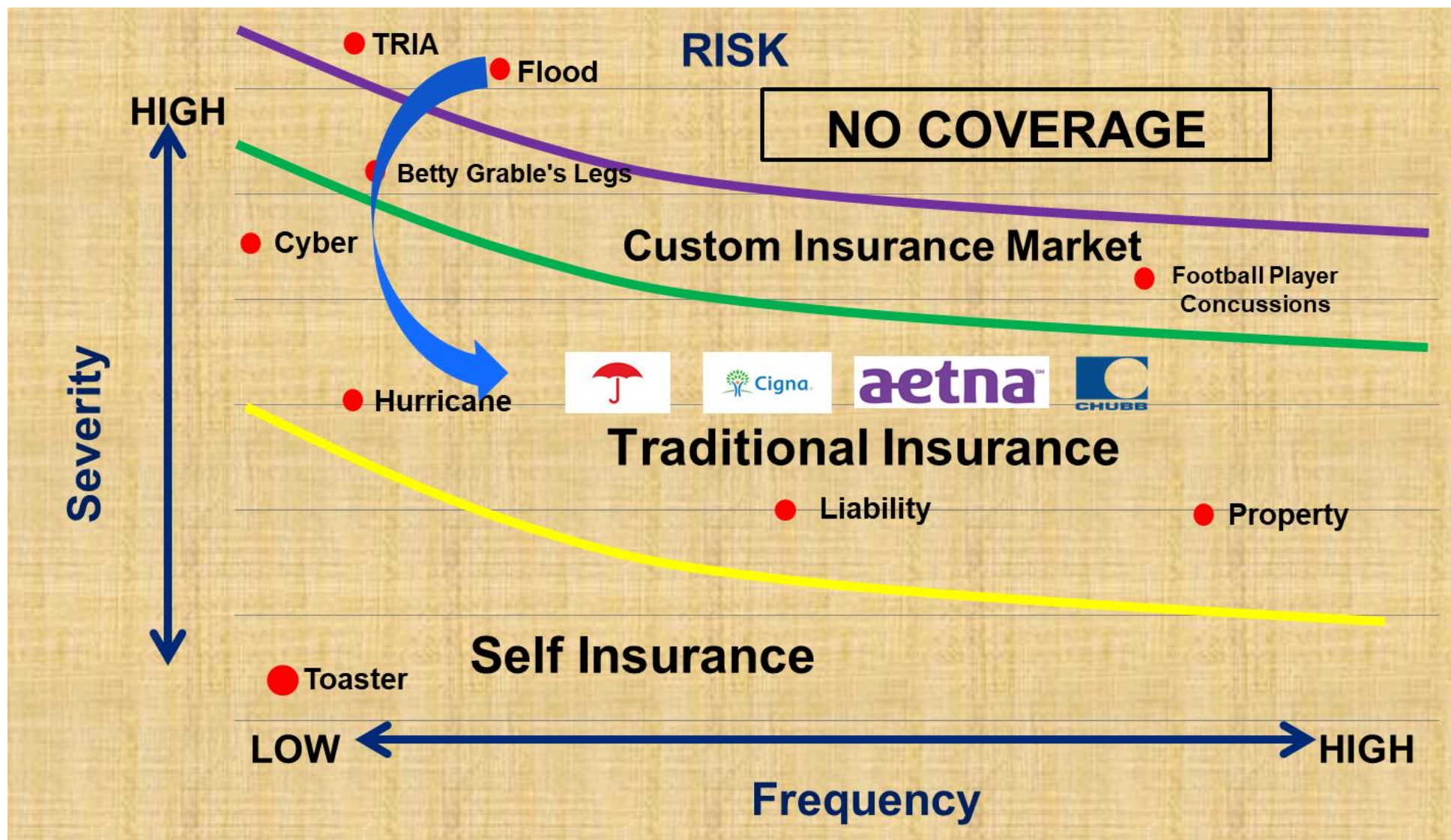




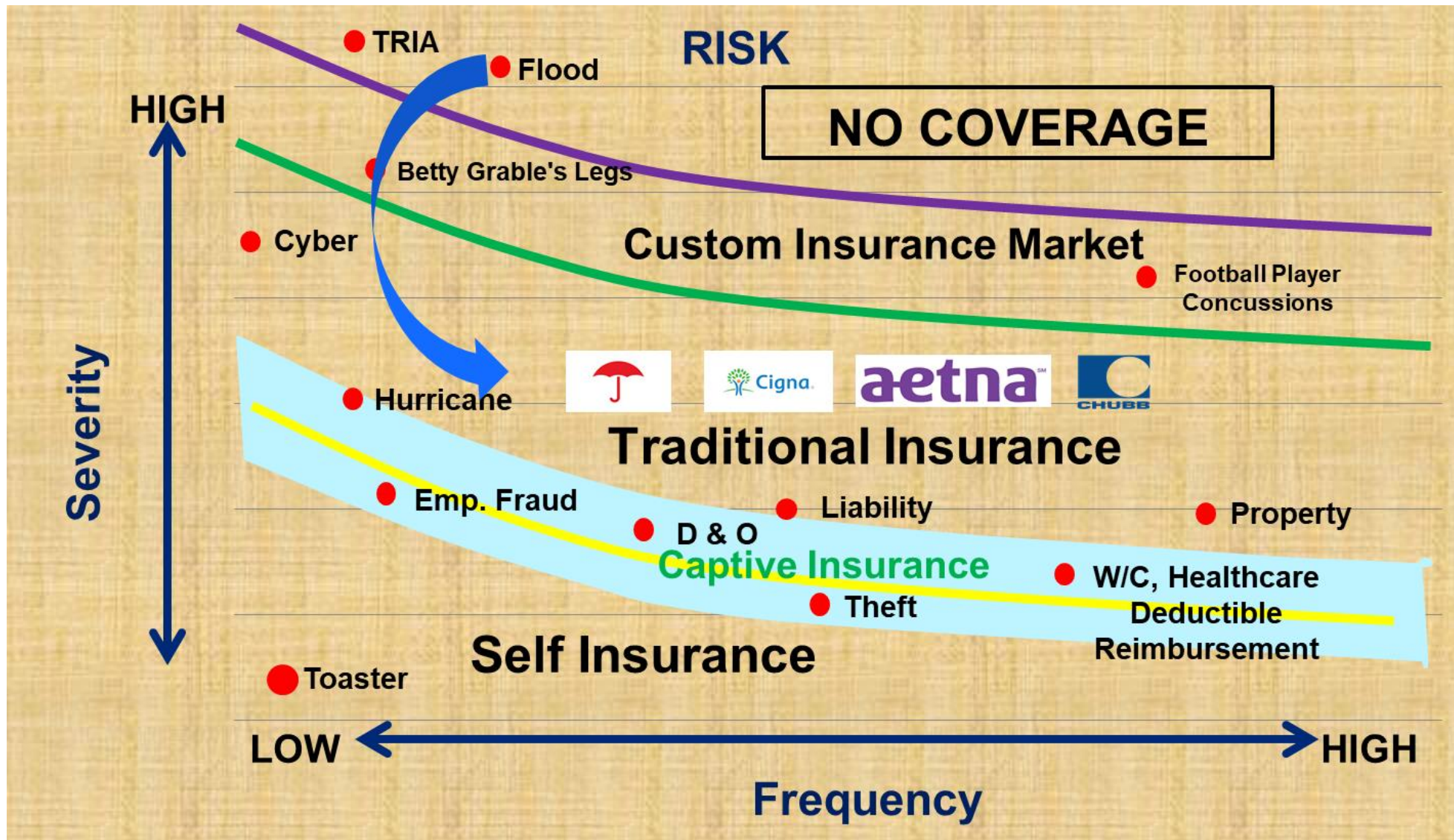






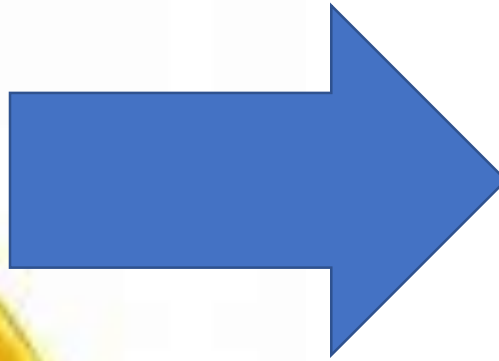








# Economic Juice





# Expected Losses

Year	Ultimate Incurred Claims
2018	\$ 1,973,700
2019	\$ 2,072,385
2020	\$ 2,176,004
2021	\$ 2,284,804
2022	\$ 2,399,045
2023	\$ 2,518,997
2024	\$ 2,644,947
2025	\$ 2,777,194

# Payout of Claims

Accident Year Basis							
Incremental Paid Claims at the end of (Months)							
	12	24	36	48	60	72	Total
2018	\$ 592,110	\$ 414,477	\$ 355,266	\$ 296,055	\$ 217,107	\$ 98,685	\$ 1,973,700
2019	\$ 621,716	\$ 435,201	\$ 373,029	\$ 310,858	\$ 227,962	\$ 103,619	\$ 2,072,385
2020	\$ 652,801	\$ 456,961	\$ 391,681	\$ 326,401	\$ 239,360	\$ 108,800	\$ 2,176,004
2021	\$ 685,441	\$ 479,809	\$ 411,265	\$ 342,721	\$ 251,328	\$ 114,240	\$ 2,284,804
2022	\$ 719,713	\$ 503,799	\$ 431,828	\$ 359,857	\$ 263,895	\$ 119,952	\$ 2,399,045
2023	\$ 755,699	\$ 528,989	\$ 453,419	\$ 377,850	\$ 277,090	\$ 125,950	\$ 2,518,997
2024	\$ 793,484	\$ 555,439	\$ 476,090	\$ 396,742	\$ 290,944	\$ 132,247	\$ 2,644,947
2025	\$ 833,158	\$ 583,211	\$ 499,895	\$ 416,579	\$ 305,491	\$ 138,860	\$ 2,777,194
LDF	3.333	1.961	1.449	1.190	1.053	1.000	

# Payout of Claims

Calendar Year Basis								
Incremental Paid Claims Per Accident Year As of the end of Calendar Year								
	2018	2019	2020	2021	2022	2023	2024	2025
2018	\$ 592,110	\$ 414,477	\$ 355,266	\$ 296,055	\$ 217,107	\$ 98,685		
2019		\$ 621,716	\$ 435,201	\$ 373,029	\$ 310,858	\$ 227,962	\$ 103,619	
2020			\$ 652,801	\$ 456,961	\$ 391,681	\$ 326,401	\$ 239,360	\$ 108,800
2021				\$ 685,441	\$ 479,809	\$ 411,265	\$ 342,721	\$ 251,328
2022					\$ 719,713	\$ 503,799	\$ 431,828	\$ 359,857
2023						\$ 755,699	\$ 528,989	\$ 453,419
2024							\$ 793,484	\$ 555,439
2025								\$ 833,158
Paid Each Year	\$ 592,110	\$ 1,036,193	\$ 1,443,268	\$ 1,811,487	\$ 2,119,168	\$ 2,323,811	\$ 2,440,002	\$ 2,562,002



# Ultimate – Paid = Reserves

Summary								
Values at the end of Calendar Year								
	2018	2019	2020	2021	2022	2023	2024	2025
Total Ultimate	\$ 1,973,700	\$ 4,046,085	\$ 6,222,089	\$ 8,506,894	\$ 10,905,938	\$ 13,424,935	\$ 16,069,882	\$ 18,847,076
Total Paid to date	\$ 592,110	\$ 1,628,303	\$ 3,071,571	\$ 4,883,057	\$ 7,002,225	\$ 9,326,036	\$ 11,766,038	\$ 14,328,040
Total Reserve	\$ 1,381,590	\$ 2,417,783	\$ 3,150,519	\$ 3,623,837	\$ 3,903,713	\$ 4,098,899	\$ 4,303,844	\$ 4,519,036
Total Reported to date	\$ 1,184,220	\$ 2,822,391	\$ 4,739,841	\$ 6,851,848	\$ 9,168,140	\$ 11,600,247	\$ 14,153,959	\$ 16,835,357
Total Case	\$ 592,110	\$ 1,194,089	\$ 1,668,270	\$ 1,968,790	\$ 2,165,915	\$ 2,274,211	\$ 2,387,921	\$ 2,507,317
Total IBNR	\$ 789,480	\$ 1,223,694	\$ 1,482,249	\$ 1,655,046	\$ 1,737,798	\$ 1,824,688	\$ 1,915,923	\$ 2,011,719
Total Premium	\$ 3,289,500	\$ 6,743,475	\$ 10,370,149	\$ 14,178,156	\$ 18,176,564	\$ 22,374,892	\$ 26,783,137	\$ 31,411,794
Ultimate LR	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

# Income Statement

	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022	Year 6 2023	Year 7 2024	Year 8 2025
<b><u>Revenues</u></b>								
Earned Premium	\$ 3,289,500	\$ 3,453,975	\$ 3,626,674	\$ 3,808,007	\$ 3,998,408	\$ 4,198,328	\$ 4,408,245	\$ 4,628,657
<b><u>Underwriting Expenses</u></b>								
Paid Claims	\$ 592,110	\$ 1,036,193	\$ 1,443,268	\$ 1,811,487	\$ 2,119,168	\$ 2,323,811	\$ 2,440,002	\$ 2,562,002
Change in Case Reserves	\$ 592,110	\$ 601,979	\$ 474,181	\$ 300,520	\$ 197,125	\$ 108,296	\$ 113,711	\$ 119,396
Change in IBNR	\$ 789,480	\$ 434,214	\$ 258,555	\$ 172,797	\$ 82,752	\$ 86,890	\$ 91,234	\$ 95,796
<b><u>Underwriting Profit/(Loss)</u></b>	\$ 1,315,800	\$ 1,381,590	\$ 1,450,670	\$ 1,523,203	\$ 1,599,363	\$ 1,679,331	\$ 1,763,298	\$ 1,851,463
<b><u>Unallocated Expenses</u></b>								
Captive Management	\$ 40,000	\$ 41,200	\$ 42,436	\$ 43,709	\$ 45,020	\$ 46,371	\$ 47,762	\$ 49,195
Actuarial	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855	\$ 22,510	\$ 23,185	\$ 23,881	\$ 24,597
Audit (Pro-rata part of Consolidated	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299
Premium Tax	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628	\$ 5,796	\$ 5,970	\$ 6,149
Board Meeting	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299
Other Expenses	\$ 15,000	\$ 15,450	\$ 15,914	\$ 16,391	\$ 16,883	\$ 17,389	\$ 17,911	\$ 18,448
Investment Income (3%)	\$ 49,343	\$ 53,290	\$ 57,479	\$ 61,923	\$ 66,637	\$ 71,635	\$ 76,933	\$ 82,547
<b><u>Net Profit</u></b>	\$ 1,265,143	\$ 1,331,880	\$ 1,402,059	\$ 1,475,854	\$ 1,553,449	\$ 1,635,039	\$ 1,720,825	\$ 1,811,022
<b><u>Income Tax Expense (@21%)</u></b>	\$ 265,680	\$ 279,695	\$ 294,432	\$ 309,929	\$ 326,224	\$ 343,358	\$ 361,373	\$ 380,315
<b><u>Net Income after Federal Income Tax</u></b>	\$ 999,463	\$ 1,052,185	\$ 1,107,626	\$ 1,165,924	\$ 1,227,225	\$ 1,291,681	\$ 1,359,452	\$ 1,430,708

# Balance Sheet

December 31st	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<b><u>Assets</u></b>								
Cash	\$ 2,646,733	\$ 3,749,662	\$ 4,552,577	\$ 5,099,690	\$ 5,457,163	\$ 5,733,938	\$ 6,024,670	\$ 6,330,059
Other Investments	\$ -	\$ 999,463	\$ 2,051,648	\$ 3,159,274	\$ 4,325,198	\$ 5,552,423	\$ 6,844,104	\$ 8,203,556
Capitalization Account	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
<b><u>Total Assets</u></b>	\$ 2,896,733	\$ 4,999,125	\$ 6,854,225	\$ 8,508,964	\$ 10,032,361	\$ 11,536,361	\$ 13,118,774	\$ 14,783,615
<b><u>Liabilities</u></b>								
Case Reserves	\$ 592,110	\$ 1,194,089	\$ 1,668,270	\$ 1,968,790	\$ 2,165,915	\$ 2,274,211	\$ 2,387,921	\$ 2,507,317
IBNR Reserves	\$ 789,480	\$ 1,223,694	\$ 1,482,249	\$ 1,655,046	\$ 1,737,798	\$ 1,824,688	\$ 1,915,923	\$ 2,011,719
Federal Income Tax Payable	\$ 265,680	\$ 279,695	\$ 294,432	\$ 309,929	\$ 326,224	\$ 343,358	\$ 361,373	\$ 380,315
<b><u>Total Liabilities</u></b>	\$ 1,647,270	\$ 2,697,477	\$ 3,444,951	\$ 3,933,766	\$ 4,229,938	\$ 4,442,257	\$ 4,665,217	\$ 4,899,351
Stockholder's Equity	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Surplus	\$ 999,463	\$ 2,051,648	\$ 3,159,274	\$ 4,325,198	\$ 5,552,423	\$ 6,844,104	\$ 8,203,556	\$ 9,634,264
<b><u>Total Equity</u></b>	\$ 1,249,463	\$ 2,301,648	\$ 3,409,274	\$ 4,575,198	\$ 5,802,423	\$ 7,094,104	\$ 8,453,556	\$ 9,884,264
<b><u>Total Liabilities &amp; Equity</u></b>	\$ 2,896,733	\$ 4,999,125	\$ 6,854,225	\$ 8,508,964	\$ 10,032,361	\$ 11,536,361	\$ 13,118,774	\$ 14,783,615



# Captive vs. Self Insurance

Year	<u>Economic Benefit Captive</u>		<u>Economic Benefit of SI</u>		<u>Net Value of Captive</u>
2018	\$	425,115	\$	124,343	\$ 300,772
2019	\$	445,640	\$	217,600	\$ 228,040
2020	\$	467,169	\$	303,086	\$ 164,083
2021	\$	489,752	\$	380,412	\$ 109,340
2022	\$	513,441	\$	445,025	\$ 68,416
2023	\$	538,291	\$	488,000	\$ 50,290
2024	\$	564,358	\$	512,400	\$ 51,958
2025	\$	591,703	\$	538,020	\$ 53,683
	\$	4,035,470	\$	3,008,888	\$ 1,026,581

# Total Cost of Risk



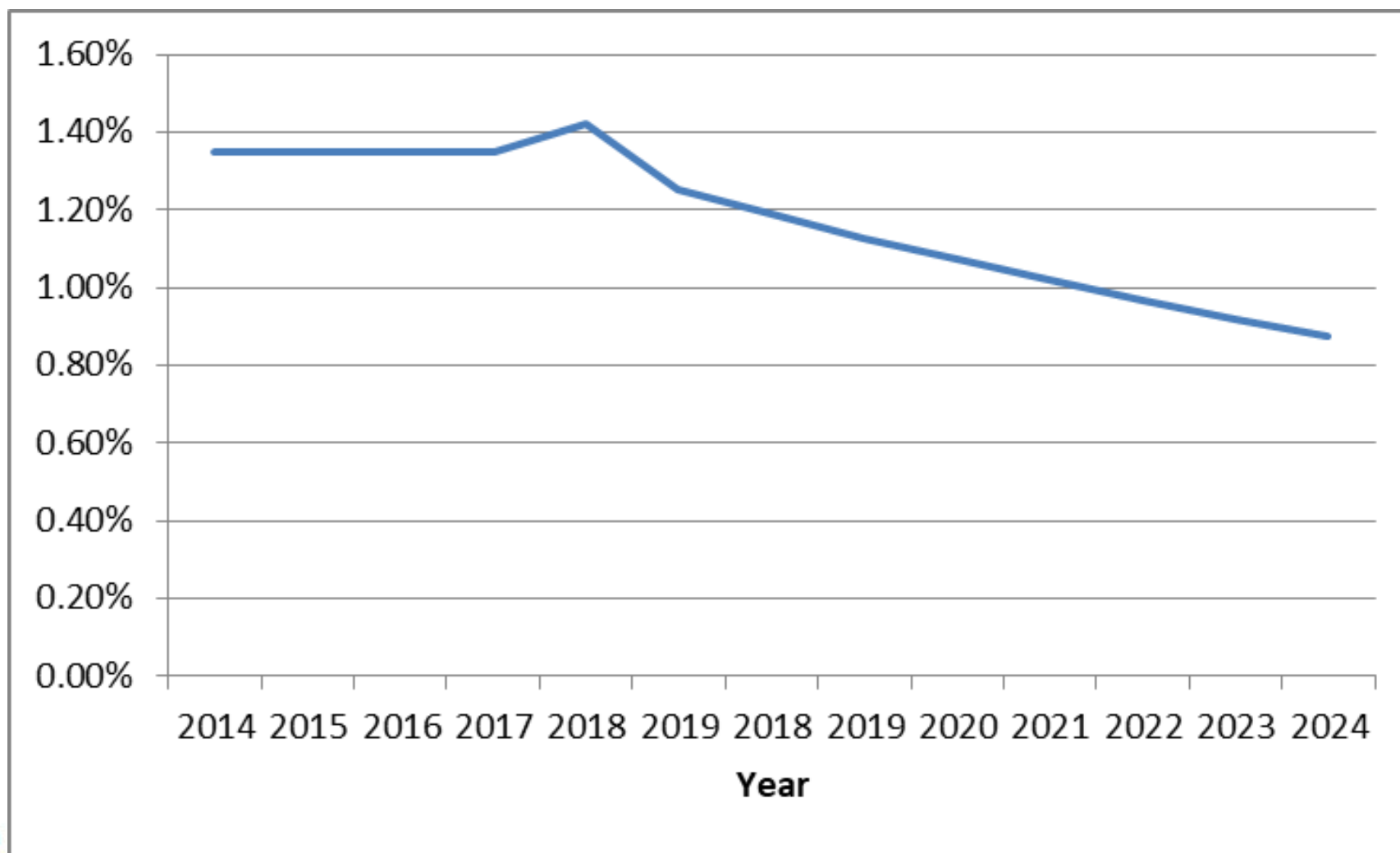
Cost of Insurance  
Claims Cost  
Loss Control  
Claims Handling  
Administration  
Indirect Cost  
Total Costs

# Total Cost of Risk

	Self-Insurance	Captive Year 1	Captive Year 2
Red Rocket Annual Revenues	\$ 450,000,000	\$ 450,000,000	\$ 472,500,000
Red Rocket Commercial Premium	\$ 3,000,000	\$ 3,000,000	\$ 2,400,000
Red Rocket 2018 Losses (WC, AL, GL)	\$ 1,973,700		
Red Rocket 2018 Captive Premium	\$ -	\$ 3,289,500	\$ 3,453,975
Red Rocket Other Lines Expected Losses	\$ 500,000	\$ 500,000	\$ 500,000
Risk Management Department Expense	\$ 300,000	\$ 300,000	\$ 300,000
Loss Control Expense	\$ 75,000	\$ 75,000	\$ 75,000
Quality Control Incentive Program	\$ 200,000	\$ 200,000	\$ 200,000
Miscellaneous Expense	\$ 30,000	\$ 30,000	\$ 30,000
Total Cost of Risk	\$ 6,078,700	\$ 7,394,500	\$ 6,958,975
Red Rocket Captive Profit after Tax		\$ 999,463	\$ 1,052,185
	1.35%	1.64%	1.47%
Adjusted (Profit after Tax) TCOR		1.42%	1.25%



# Projected Total Cost of Risk



# Benefits of Lower TCOR

1. Makes Red Rocket more competitive
2. Safer Workplace
3. Lower frictional costs from claims
4. Improved profitability

# Risk Financing Tool

1. Allows Red Rocket to quantify risk, future losses, and accumulate surplus while accelerating the parent's deduction.
2. Emphasizes the importance of controlling losses. Claims you don't have become profit for the captive. Reducing Ultimate Expected Losses reduces premiums.
3. Re-evaluation of deductibles, retentions and coverage terms purchased in the commercial market—the objective is to transfer risk efficiently. We must not forget about the value of Reinsurance.
4. Evolving tool. Each year we must take a look at our captive program—just as we look at the commercial program—and examine best uses.



# Q & A

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