

BUSINESS INSURANCE

Successful Captives: Three Case Studies

2018 World Captive Forum
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Fort Lauderdale, FL

#WorldCaptiveForum

Presenters:

Andrew W. Kush
Chief Administrative Officer
Healthcare Services Group, Inc.

Paul A. Buse, CPCU, ARM
President, Big I Advantage and Big I Reinsurance Company, PCC
Independent Insurance Agents & Brokers of America, Inc.

Josh Savage
Financial Risk & Investments Manager
The Coca-Cola Company

Moderator:

Hugh Rosenbaum
Retired Principal
Willis Towers Watson

Healthcare Services Group Inc.

Andrew W. Kush

Chief Administrative Officer

Healthcare Services Group, Inc.

Background

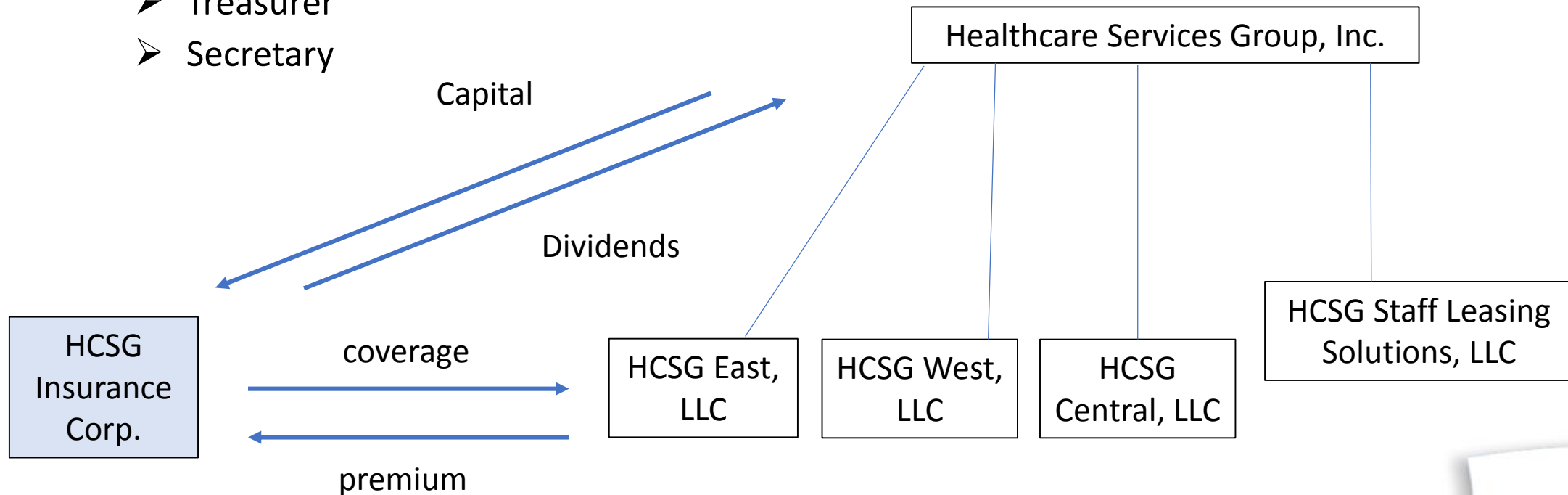
- Provide environmental and dining/nutrition services to the long-term care industry
- Operate in 48 states
- Revenue: \$2B
- Employ over 60,000 individuals
- History:
 - 1976 – Healthcare Services Group, Inc. formed in Bensalem, PA
 - 1983 – company went public and listed on the Nasdaq under the symbol “HCSG”
 - 1999 – company expanded into dining/nutrition services
 - 2014 – company formed HCSG Insurance Corp.

HCSG Insurance Corp.

- After 38 years, why form a captive?
 - Facilitated a more holistic approach to risk management
 - PPACA considerations
 - Reinsurance of certain Voluntary Benefits
- HCSG Insurance Corp. – Key Business Partners
 - Domicile – New Jersey
 - Captive Manager – Willis Towers Watson
 - Actuary – Pinnacle Actuarial Resources, Inc.
 - Counsel – Stevens and Lee
 - Independent Fiduciary – Milliman, Inc.
 - External Auditor – Crowe Horwath LLP

HCSG Insurance Corp. – Management and Structure

- Board of Directors (all active employees of Healthcare Services Group, Inc.)
 - President – Andrew W. Kush
 - Vice President
 - Treasurer
 - Secretary



HCSG Insurance Corp.

- Key Financials

- Current capital - \$21M
- Premium-to-Surplus – 184%
- Reserve-to-Surplus – 452%
- Loss Ratio – 83%
- Expense Ratio – 2%
- Combined Ratio – 85%

- Investment Strategy

- Investments managed by PNC Bank
- Conservative approach
- Municipal bond portfolio with varying maturity periods

HCSG Insurance Corp.

- What risks does HCSG Insurance Corp. insure?
 - Traditional casualty exposures:
 - Workers' Compensation
 - ✓ Premium - \$36.8M
 - ✓ Deductible Liability Protection Policy - \$1,000,000 per occurrence
 - ✓ Loss Portfolio Transfer for legacy claim activity
 - ✓ Premiums are allocated on a pro-rata basis to operating subsidiaries
 - General Liability
 - ✓ Premium - \$3.5M
 - ✓ Self-Insured Retention Liability Policy - \$500,000 per occurrence
 - ✓ Premium not allocated to subs – risk resides in the service agreements (written at the parent level)

HCSG Insurance Corp.

- Fronting
 - Workers' Compensation and General Liability
 - Voluntary Benefits
- Reinsurance

HCSG Insurance Corp.

- The “Not So Traditional” exposures:
 - Voluntary Benefits
 - ✓ Short-term Disability
 - ✓ Term Life
 - ✓ Limited Medical (indemnity)
 - HCSG Insurance Corp takes 100% of the risk through a reinsurance agreement
 - Requires an exemption from the Department of Labor
 - Characteristics of the benefits created an “insurable” environment
 - ✓ Extremely predictable
 - ✓ Insureds pay 100% of the premiums through payroll deductions
 - ✓ Low limits (minimal risk of catastrophic loss)
 - ✓ Products popular with employee base (low cost)
 - ✓ Products profitable in the commercial market

HCSG Insurance Corp.

- Why reinsure Voluntary Benefits?
 - ✓ Provide enhanced coverages to employees
 - ✓ Provide reduced premiums to employees
 - ✓ Create pricing stability within employee benefits program
 - ✓ “Unbundling” the traditional transaction creates cost stabilization
 - ✓ Diversify risk within the captive
 - 3rd party risk
 - ✓ Create additional revenue stream for the organization
 - ✓ Low risk, seamless transaction
 - ✓ Ideal fit for HCSG’s risk management strategy

HCSG Insurance Corp.

- HCSG Insurance Corp experience
 - Workers' Compensation loss cost reduced by 20%
 - Favorable combined ratio relative to Voluntary Benefit program
- What's next?
 - Stop Loss – participating in a layer within the HCSG medical plan
 - Insuring Executive Risk program retention
 - Insuring organization's Accounts Receivable
 - Partner with industry associations:
 - ✓ Continue to diversify risk
 - ✓ Opportunity to expand benefit program (individual mandate relief)
 - ✓ Create industry-specific homogeneous WC solution
 - Assess implications of tax reform

Q&A

Andrew W. Kush

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Healthcare Services Group, Inc.

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Big I Reinsurance Company, PCC

Paul A. Buse, CPCU, ARM

President, Big I Advantage and Big I Reinsurance Company, PCC

Independent Insurance Agents & Brokers of America, Inc.

Welcome to South Florida!



New River Groves, Davie, FL (not far from here)

What

What is Big I Reinsurance Company, PCC

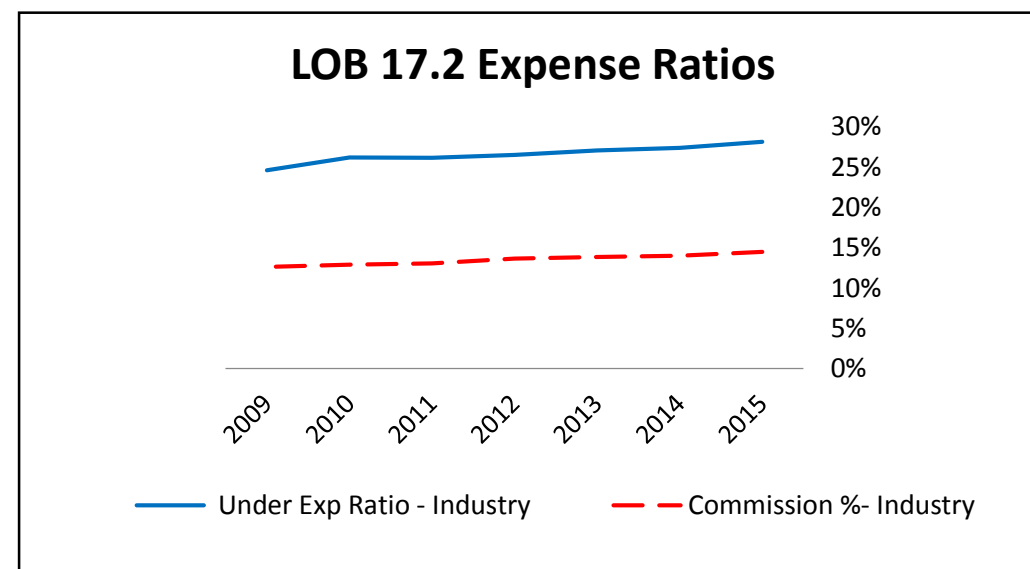
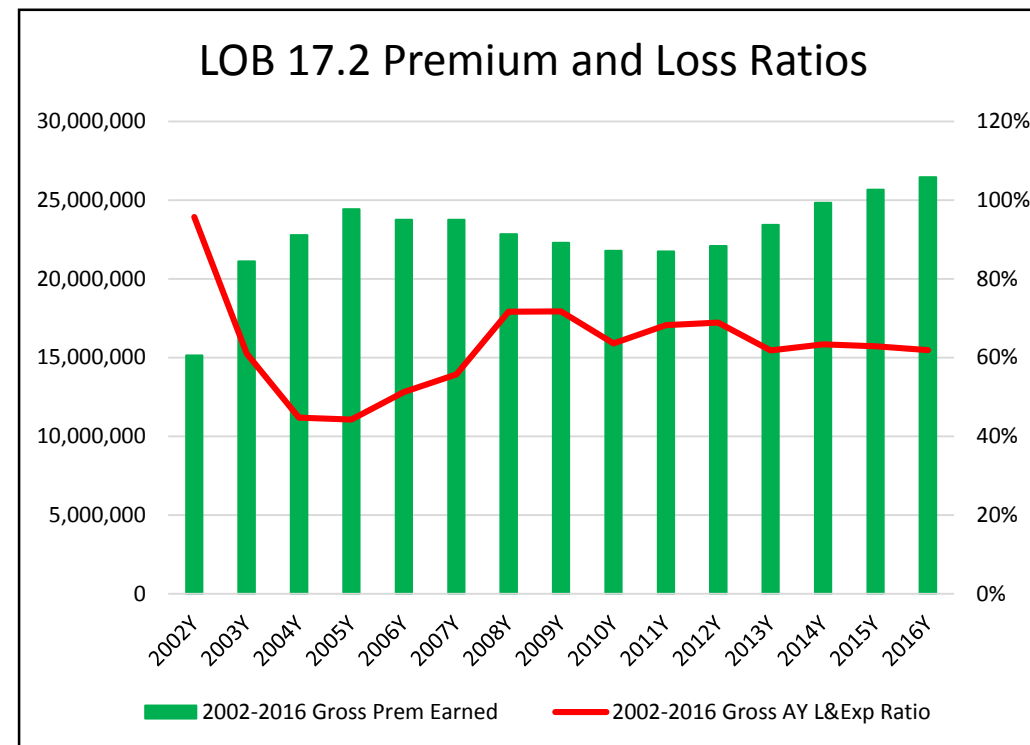
- DC Domicile/Delaware Corp
- State Association and National Investors
- Governance-Board of Directors
- Profit Distribution
- Manager-Actuary-Legal-Auditor
- Converted to Protected Cell Company

What is “The Big Eye”

- Independent Insurance Agents & Brokers of America, Inc...1896
- Big I Advantage, Inc...1982
- Big I Reinsurance Company, PCC...2008

What's our Marketplace?

- LOB 17.2 is PL, D&O, Cyber and standalone GL niches
- About 650 writing insurers averaging \$30 million books
- Size: Agency E&O is about 2.5% of 17.2...program is about 20% of that
- BIRC is <10% quota share on every policy with Swiss Re Corporate Solutions via two writing insurers
- Loss Ratio: BIRC mirrors our program which mirrors LOB 17.2 (we seek to be bit better via association influence)
- Expenses (before PCC biz...)



How

How Does BIRC Operate?

- Reinsurance is key for us (“Fronted Program”)
- Quota Share (Proportionate on every policy)
- Security (Swiss Re Corporate Solutions is 30+ year partner)
- Infrastructure (SRCS policy, claims, systems)
- Marketing & Distribution (Big “I” States + IIABA)
- We Study Our Business
 - LOB 17.2
 - Our Competition
 - Our member’s risks

“Why” is our Secret Sauce

- Independent Agents: Better insurance makes a better world
- Alignment of interests: Insurer-Association-Insureds
- “Seat at the table”
- Share in profitability
- Importance of Risk Management
 - Education: Procedures vs. Knowledge-based
 - Processes: esignatures
 - Documentation: The “Failure to Offer” Acronyms...UM, NFIP, EIL and IHB
 - Advocacy: Certificates of Insurance, Standard of Care, Company Contracts

Future

PCC-Extending The BIRC Benefits

- Provide our infrastructure to members
- Large Agency and Alliances
- Deductible Reimbursement Approach
- Drive Risk Management Innovation
 - Example: Investigating Personalities and E&O?

Closing: Captives help in the long game...



Note: That “man” was IIABA’s first woman committee chair in 1982!

Q & A

Paul A. Buse, CPCU, ARM

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The Coca-Cola Company

Captives Case Study

Josh Savage
Financial Risk & Investments Manager
The Coca-Cola Company

Coca-Cola AT A GLANCE

The Coca-Cola Company (NYSE: KO) is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands.



REFRESHING
CONSUMERS



GLOBAL HQ
ATLANTA, GA



PRODUCTS SOLD IN
200+ COUNTRIES



RECORD
DAILY SERVINGS



PROFIT

\$41.9B

NET OPERATING REVENUES
(2016, AS REPORTED)

\$6.5B

NET INCOME
(2016, AS REPORTED)

\$8.4B

RETURNED TO SHAREOWNERS
IN DIVIDENDS & NET SHARE
REPURCHASES IN 2016

\$177.8B

MARKET CAPITALIZATION
(AS OF 12/31/2016)

55 YEARS

OF CONSECUTIVE ANNUAL
DIVIDEND INCREASES
(AS OF FEBRUARY 2017)

WORLDWIDE UNIT CASE VOLUME GEOGRAPHIC MIX (2016)

NORTH AMERICA
20%

LATIN AMERICA
28%

EUROPE, MIDDLE
EAST & AFRICA
29%

ASIA PACIFIC
23%

**BUSINESS
INSURANCE**

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PORTFOLIO

Coca-Cola

OUR COMPANY'S
FLAGSHIP PRODUCT
HAS BEEN PROUDLY
SERVED SINCE MAY 8,
1886



RANKED BY INTERBRAND
AS THE WORLD'S THIRD
MOST VALUABLE BRAND,
WITH 2016 VALUE OF
\$73.1B



OUR BRANDS CAPTURE APPROXIMATELY
\$1 OUT OF EVERY \$4 CONSUMERS SPEND
ON NONALCOHOLIC READY-TO-DRINK
BEVERAGES WORLDWIDE.



~3,900
PRODUCTS
WORLDWIDE



SPARKLING BEVERAGES
STILL BEVERAGES
READY-TO-DRINK JUICE
AND JUICE DRINKS
READY-TO-DRINK COFFEE



19 OF OUR
BILLION-DOLLAR
BRANDS

HAVE A LOW- OR NO-CALORIE ALTERNATIVE
OR ARE LOW- OR NO-CALORIE

Our portfolio includes **21** billion-dollar brands:

Coca-Cola

POWERADE.



AQUARIUS

いろはす
I LOHAS



DA SANI



vitaminwater.



Simply
Beverages.



Coca-Cola
zero



Diet
Coke



GLACÉAU
smartwater.

BUSINESS
INSURANCE

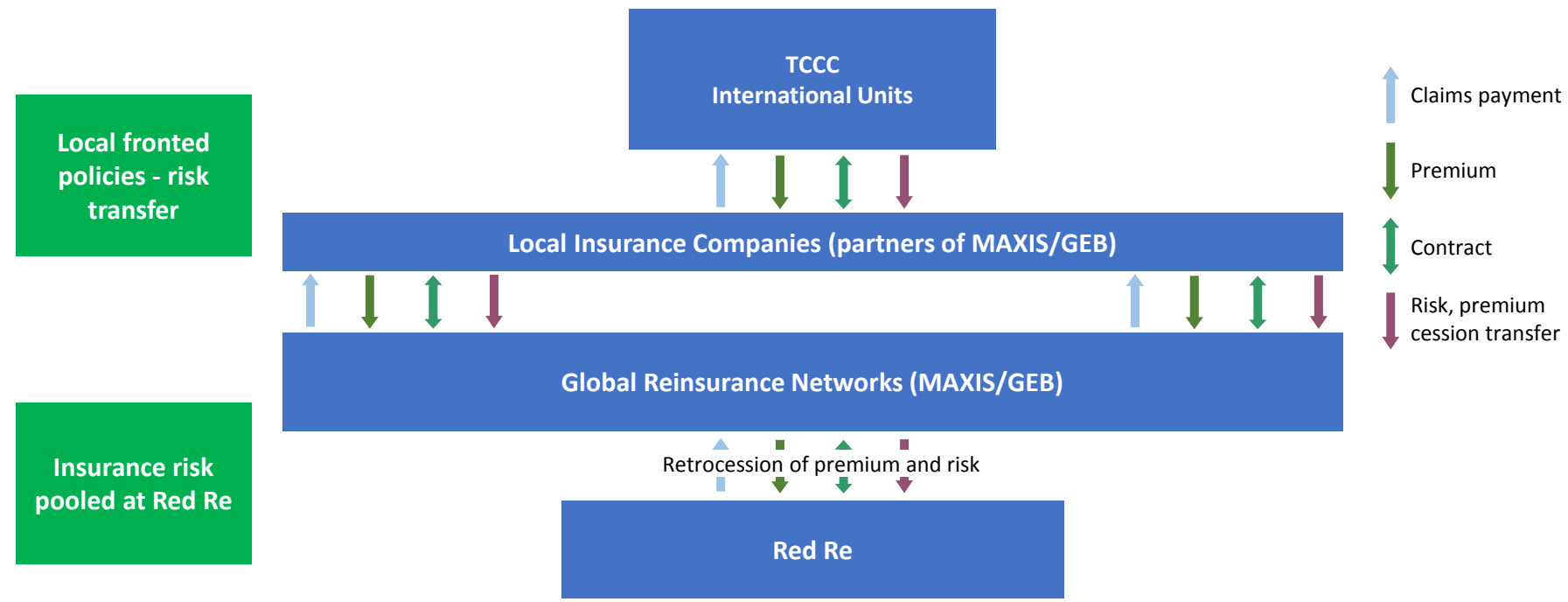
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Coca-Cola Captives Overview

	Red Disk	Red Re	Red Life Re
Established	1994	2006	2013
Type	Direct/Reinsurance	Direct/Reinsurance	Reinsurance
Domicile	Dublin	Georgia	Bermuda
GWP PC - 2016	\$22 M	\$106 M	N/A
GWP EB / Pensions - 2016	N/A	\$65 M	\$1,040 M*
Tot PC Assets @ YE 16	\$130 M	\$535 M	N/A
Tot EB Assets @ YE 16	N/A	Incl.	\$2,734 M
Lines of Coverage	<ul style="list-style-type: none"> • Global Property • Int'l Casualty • EU XS Liability • Exec Liability • Under Review 	<ul style="list-style-type: none"> • US Casualty • Product Recall • US Property • WW Terrorism • Int'l EB • TV Wrap Up • US Life 	<ul style="list-style-type: none"> • Pensions – Canada, Germany, UK and Ireland

* Pension premium written in 2013 = \$466 M
Pension premium written in 2015 = \$215 M

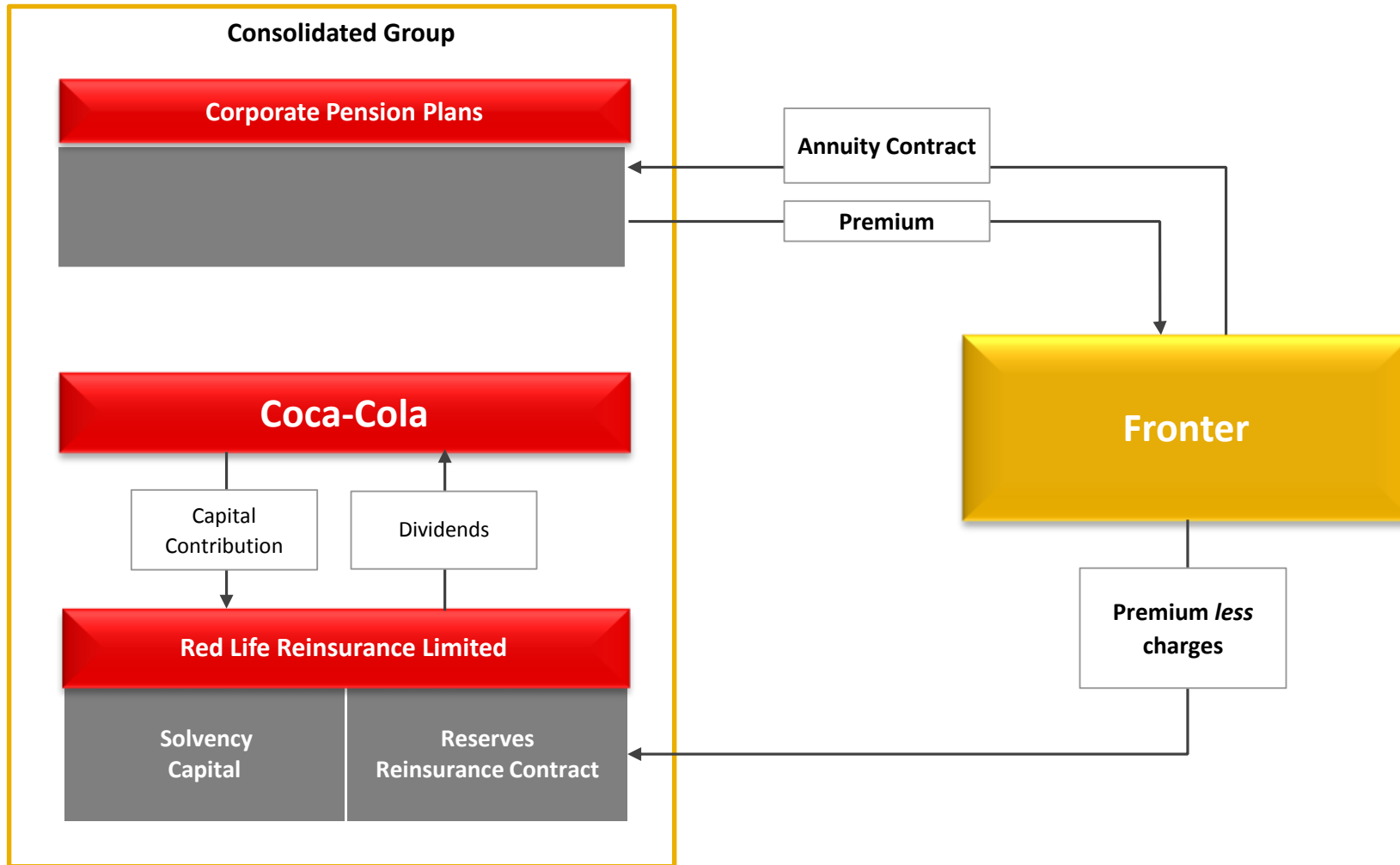
IEB Program – Reinsurance Structure



IEB Program – Structure, Issues, and Challenges

- **Running since 2006**
- **US \$65MM premiums, 478 policies covering 87 operations in 60 countries**
- **Program includes Life, Disability, Medical, Accident, Voluntary or employee-paid insurances as well as other benefits, where possible**
- **Recent additions: U.S. life, expat medical/dental**
- **Other considerations: U.S. postretirement medical, U.S. medical stop-loss decided not needed**
- **The IEB value proposition – Sustainable pricing (experience risk philosophy, breakeven over time), enhanced governance, larger opportunity set**
- **Key considerations: team structure, service provider management, stakeholder management**

PenCap Program – Reinsurance Structure



PenCap Program – Structure, Issues, and Challenges

- **First 5 international pension plan targets completed, AUM US \$3.3B**
 - **Germany – approved 2009 (\$278MM)**
 - **UK and Ireland – approved 2016 (\$1,040MM); originally approved 2010 (\$630MM)**
 - **Canada – approved 2013 (\$595MM)**
- **Recent additions: new tranche in Canada, business novated to Bermuda**
- **The PenCap value proposition – Centralized investment management, economies of scale**
- **Key considerations: team structure, service provider management, macroeconomic activity (interest rates, inflation, investment returns)**

Looking Ahead

- IEB Program
 - Readiness for regulatory regime changes
 - Future transactions are considerably more complex
- PenCap Program
 - Readiness for regulatory regime changes
 - Move to cash balance plans reduces targets
 - Scale – can we replicate transactions efficiently?

Q & A

Josh Savage
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The Coca-Cola Company
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