
CAPTIVES Unleashed
MORE VALUABLE THAN EVER
April 15-17, 2024 · The Tulsa Club
Tulsa, Oklahoma
WRCIC
WESTERN REGION CAPTIVE
INSURANCE CONFERENCE, LLC
2024

Captive Underwriting

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John Davidson
April 16th, 2024

WRCIC 2024
WESTERN REGION CAPTIVE
INSURANCE CONFERENCE, LLC

Why Do We Buy Insurance?

Protection again the unexpected

Transfer financial responsibility

Thi irements – Collateral protection

uirements – Customer protection

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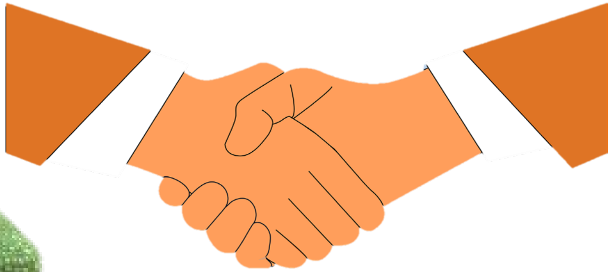
B mmendations

Media



How is Insurance Purchased?

Insurance Companies distribute their products through sales representatives called agents licensed to by the state in which they are selling.

Independent Agency System where the Agency (collection of agents) contract with Insurance Companies to bind (sell) policies of adhesion.

In addition to the Agency System there are direct writers, RRGs and internet resources that peddle their products as well.

Brokers like Marsh, AON, Lockton, Willis, Hylant—the list goes on—who may have agency contracts but may only bind coverage with the presentation of an offer from the insurance company – “Quote”.

Remember This

Most People Buy Insurance.

Few Manage Risk

Lost Luggage & Managing Risk

Where did John go wrong?

- Failed to minimize risk
- Failed to read through the policies
- Failed to consider causes of loss

Proper Risk Management

- Pack lighter, carry-on valuables
- Know what's in your policy
- Consider all causes of loss
- Keep a calm head when in crisis

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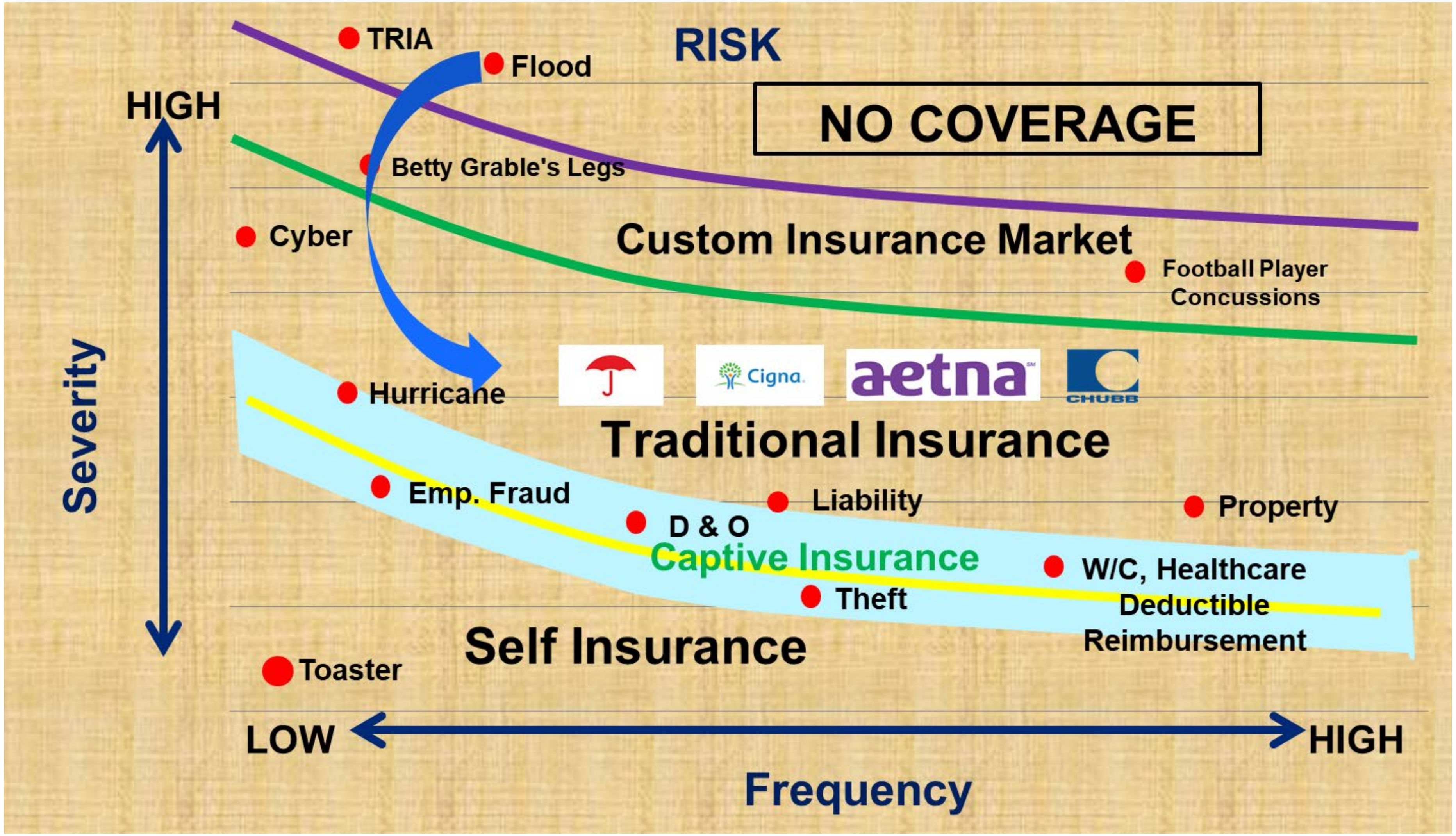


Slide Credit: Michael Corbett

Three Realms of Risk Management

Real Property
Building
Land Improvements
Asphalt
Sidewalks
Underground Utilities
Electrical Substation
Retention Ponds
SeaWall
Appurtenant Structures
Permanently Attached

Protection of Physical Assets

Personal Property
Contents
Stock
Data
Computers
Cash
Valuables & Art
Mobile Equipment
Machinery & Eqp
Property of Others
Goodwill
Suppliers
Customers

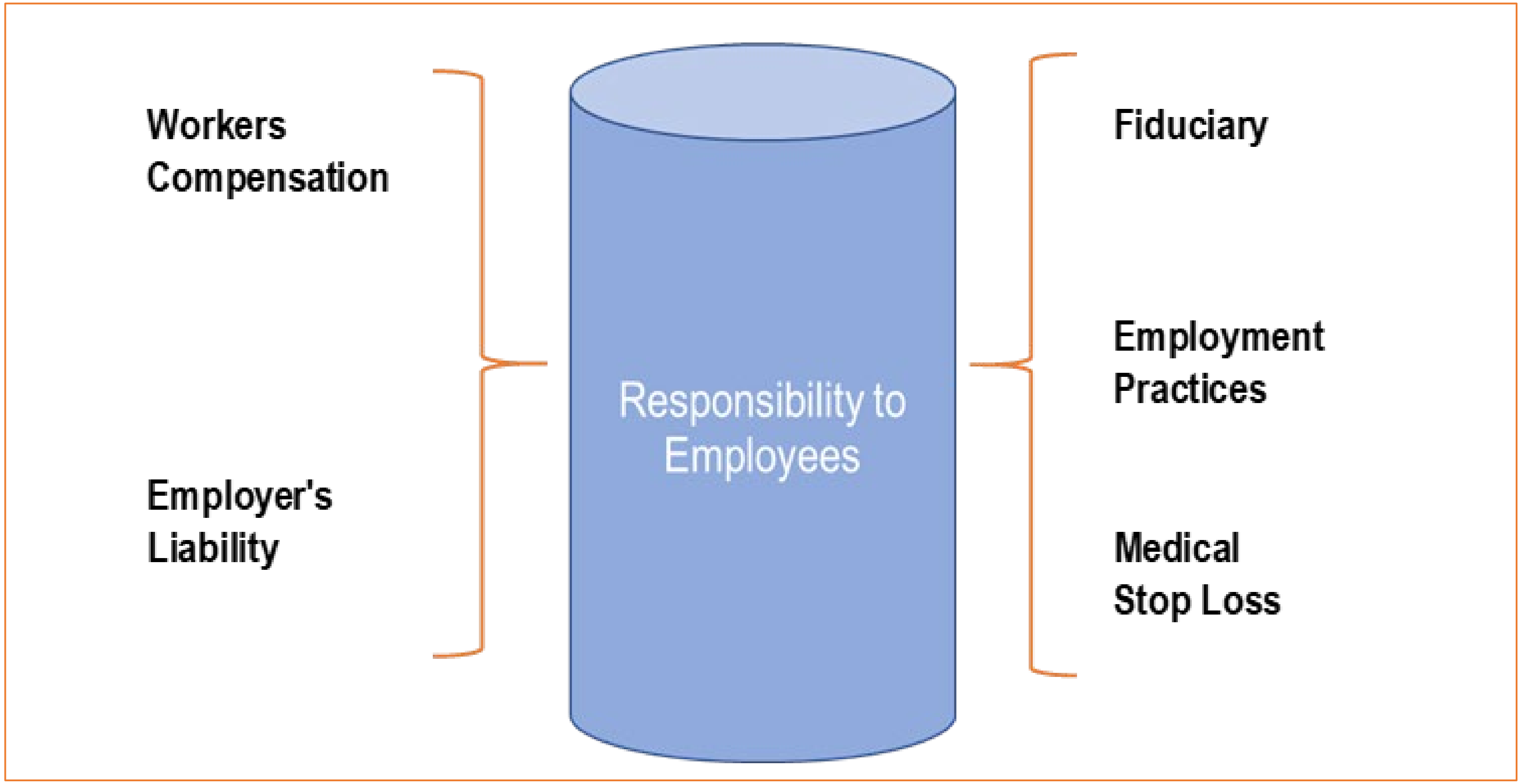
Three Realms of Risk Management

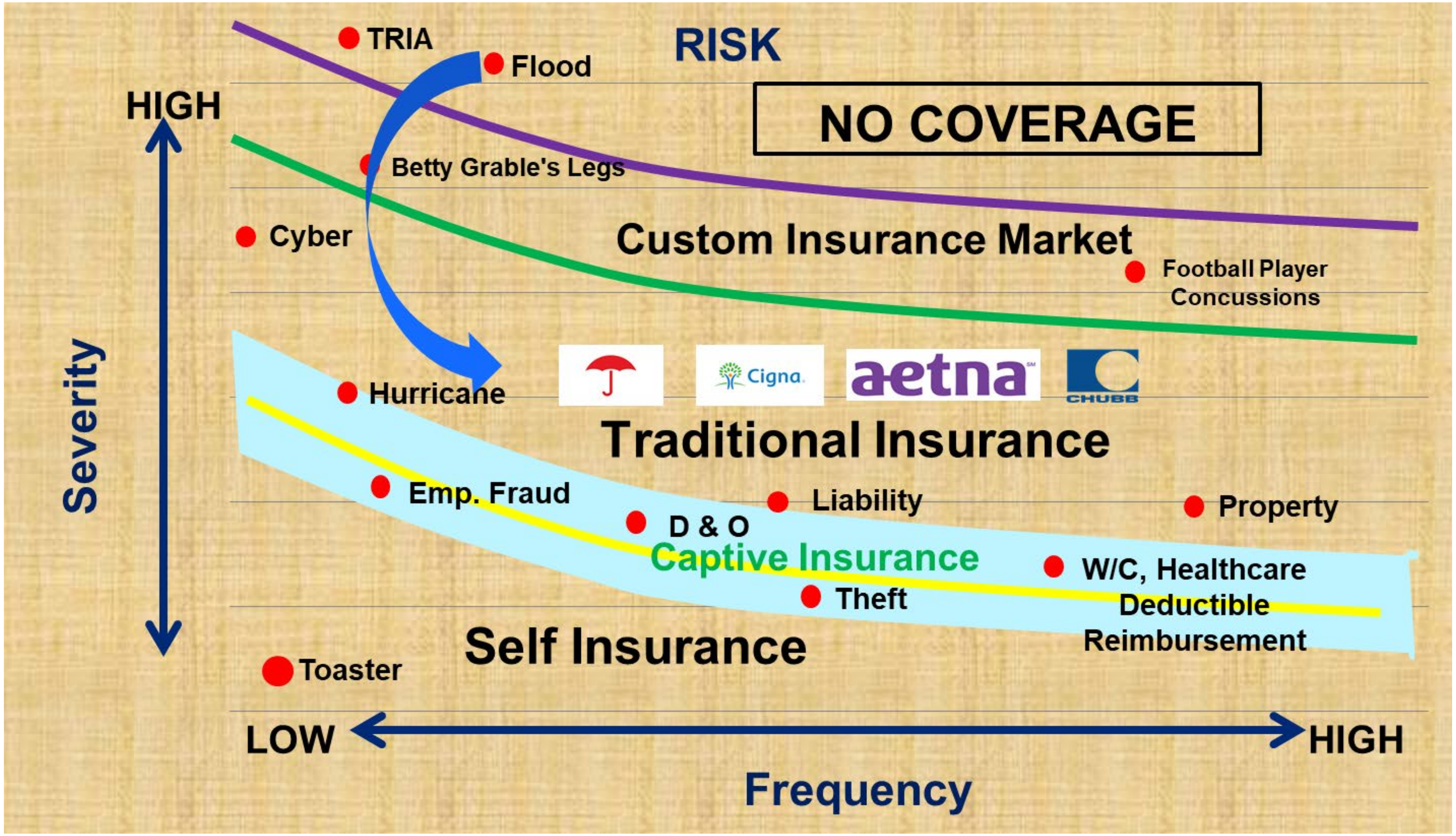
- Bodily Injury
- Property Damage
- Professional Acts
- Wrongful Acts

Responsibility to Others (TORTS)

- Breach of Responsibility
- Personal Injury
- I P Infringement
- Network Security Breach
- Breach of Contract
- Pollution Liability & Clean-up

Three Realms of Risk Management





Slide Credit: Michael Corbett

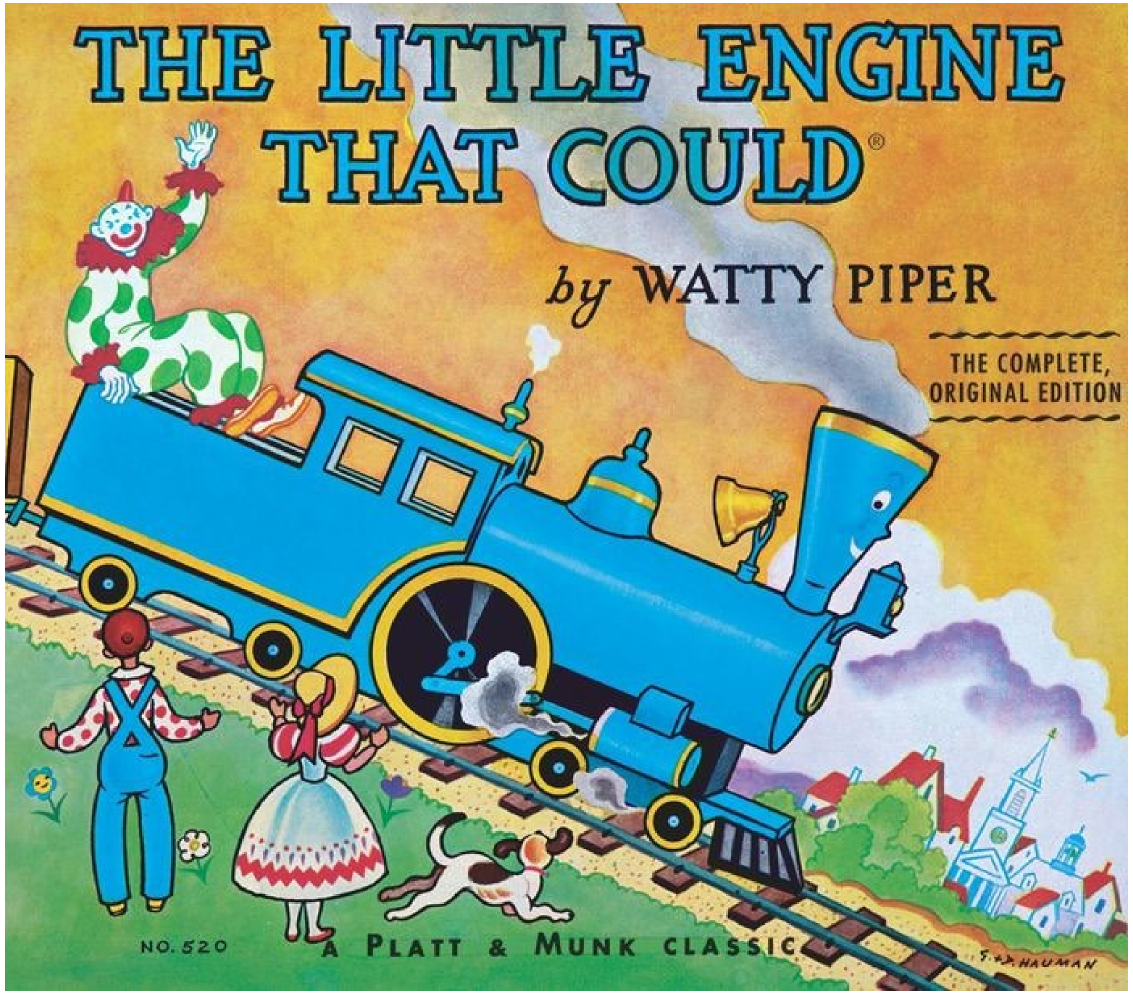
Photo credit: NYT Wirecutter

Captive Business Purpose

Reimburse Deductibles of the commercial insurance company or indemnify a Self-Insured Retention over which the commercial insurance company provides coverage,

Provide Broader Coverage and close coverage gaps created by the Commercial Insurance Company.

Provide coverage that is not economically available in the commercial market or that the commercial market does not want to write.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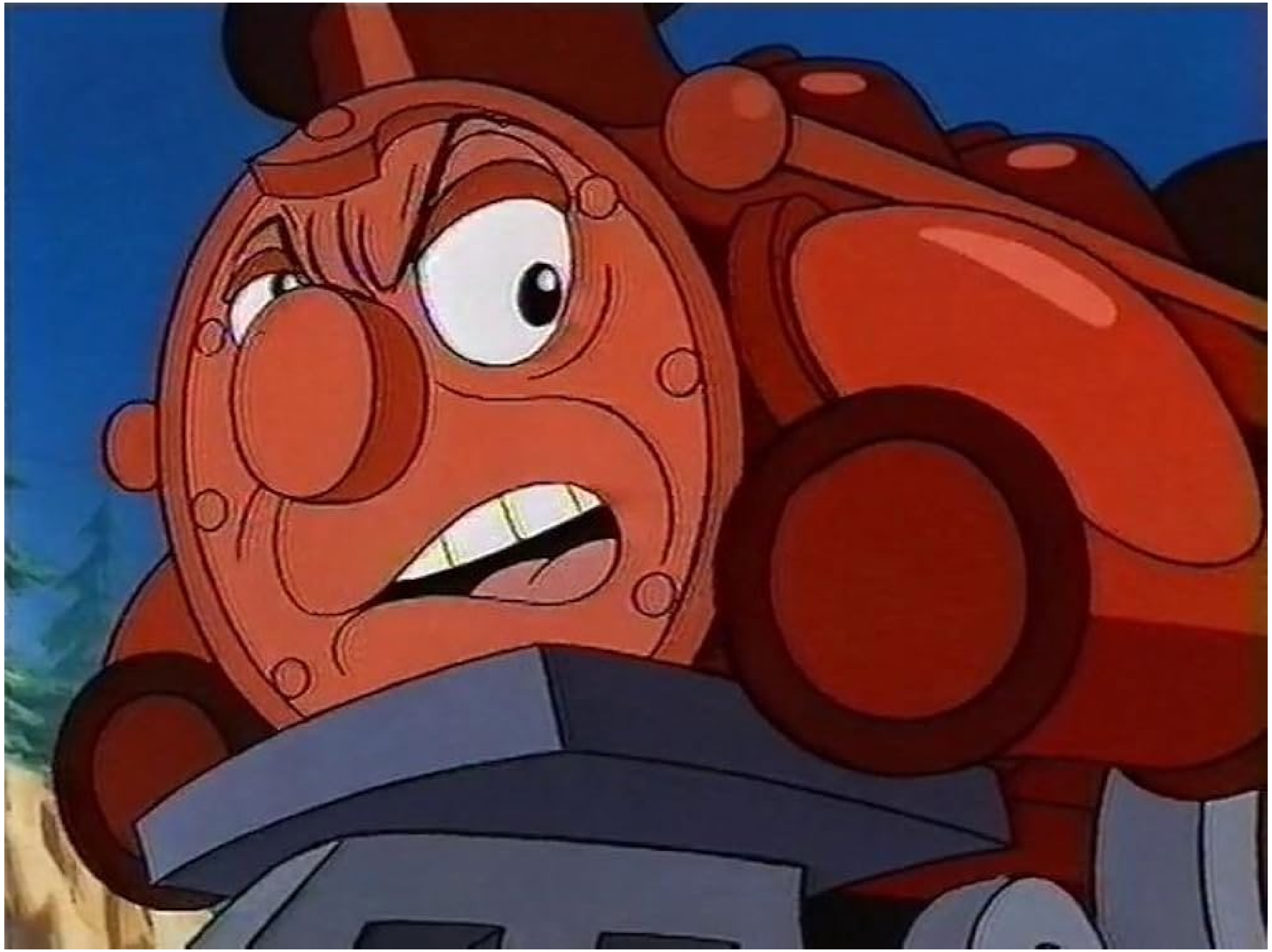
THE COMPLETE, ORIGINAL EDITION
NO. 520
A PLATT & MUNK CLASSIC



Rate and Form Filings

Federal Insurance Company	20281	ForeFront Portfolio 3.0	17.0000 Other Liability Sub-TOI Combinations	Form	Closed - Filed	CHUB-129626353
Federal Insurance Company	20281	ForeFront Portfolio 3.0	17.0000 Other Liability Sub-TOI Combinations	Form	Closed - Filed	CHUB-129614065
Federal Insurance Company	20281	ForeFront Portfolio 3.0	17.0000 Other Liability Sub-TOI Combinations	Form/Rate	Closed - Filed	CHUB-127019736
Federal Insurance Company	20281	Forefront Portfolio 3.0	17.0000 Other Liability Sub-TOI Combinations	Form	Closed - Filed	ACEH-132668067

Rating Plans

The ForeFront Portfolio
For Not-for-Profit Organizations
Directors and Officers Liability and Entity Liability Coverage

DIRECTORS AND OFFICERS LIABILITY AND ENTITY LIABILITY COVERAGE

Premium Calculation
The **Directors and Officers** premium is calculated as follows:

(A) Core D&O Premium = Base Rate (Section 1.1) * Combined Limit & Retention Factor (Section 1.2) * Industry Factor (Section 1.3) * Rating Modifiers (Section 2) * Shared Limits Factor Liability (Section 3.3) * Entity Factor (Section 3.5) * Side-A Factor (Section 3.6) * Co-Surety Modifier (Section 3.7)
(B) Optional Additional Limit for Executives Premium = Optional Addt'l Limit for Executives Charge (Section 3.1) * (A)
(C) Separate Defense Cost Coverage Premium = Separate Defense Cost Charge (Section 3.2) * Shared Separate Defense Cost Limits Discount (Section 3.4) * (A)
(D) Anti-Trust Coverage for the Entity = Anti-Trust Charge (Section 3.9) * (A)
(E) Derivative Demand Costs Premium = Derivative Demand Costs Charge (Section 3.10) * (A)
(F) Crisis Event Expenses Premium = Crisis Event Expenses Coverage Charge (Section 3.11) * (A)
(G) Tax Claims Premium = Tax Claims Coverage Charge (Section 3.12) * (A)
(H) Employed Lawyers Premium = Employed Lawyers Charge (Section 3.13) * (A)
(I) Government Funding Premium = Government Funding Charge (Section 3.14) * (A)
(J) Final D&O Premium = { (A) + (B) + (C) + (D) + (E) + (F) + (G) + (H) + (I) } * Expense Modification (Section 3.15)

Premium Calculation for Fronted Bonds can be found in Section 3.8

Section 1: Base Rates, Combined Limit & Retention Factors, and Industry Factors

1. Base Rates

The following base rates apply based on the insured's revenue or asset size depending on whether or not the insured is a Foundation/Trust. Insureds with more than $100M in revenue, that are not Foundations or Trusts, or more than $100M in assets for Foundations/Trusts will be 'a' rated.

For risks that are **not** Foundations or Trusts:

Revenue Size	State Group 1	State Group 2	State Group 3
<=.1M	$625	$750	$906
.1M < and <=.5M	750	900	1,088
.5M < and <=1M	975	1,170	1,414
1M < and <=2.5M	1,200	1,440	1,740
2.5M < and <=5M	1,575	1,890	2,284
5M < and <=10M	2,050	2,460	2,973
10M < and <=25M	2,950	3,540	4,278
25M < and <=50M	3,600	4,320	5,220
50M < and <=100M	4,500	5,400	6,525

Captive Rating Plan Case Study - Background

- Embedded Cargo Insurance Program for Shipping Platform
- Ship Various Items (e.g. vehicles, boats, LTL freight, etc.)
- Client Requested that we Develop Rating Factors for Program

Captive Rating Plan Case Study – Part 1

Rating Formula

Premium = [Base Loss Cost] x [Time On Platform Factor] x [Total Weight Factor] x [(Mileage)^0.300] x [Coverage Amount Factor] x [Category factor] x [LCM]

Rating Instructions

(1) Start with a base loss cost of 0.500.
(2) If time on platform exceeds 200 days then set time on platform factor equal to 0.400; otherwise set to 1.
(3) If total weight exceeds 2,500 pounds then set total weight factor equal to 0.800; otherwise set to 1.
(4) Raise the mileage to the 0.300 power to obtain mileage factor.
(5) If coverage amount is greater than $1,000 then determine correct coverage amount factor from the table on Sheet 1. If coverage amount is less than $1,000 then the coverage amount factor is 1.
(6) Determine appropriate category factor based on the tables below and factors from Sheet 1.
(7) Calculate the product of the base loss cost, time on platform factor, total weight factor, mileage factor, coverage amount factor, and vehicle factor to obtain the loss cost.
(8) Apply the LCM of 2.00 to obtain the premium rate.

Low
Vehicles

Moderate Low
Heavy Equipment
Motorcycles & Power Sports

Moderate
Boats

Moderate High
Household Goods
Special Care Items
Business & Industrial Goods

High
LTL Freight
Household & Office Moves

Captive Rating Plan Case Study – Part 2

Variable Name	Coefficients
Base Loss Cost	0.500
Time On Platform Factor for over 200 days	0.400
Total Weight Factor for over 2,500 pounds	0.800
Mileage Factor	0.300
Coverage Amount Factor for $1,000 - $2,999	4.000
Coverage Amount Factor for $3,000 - $6,999	10.000
Coverage Amount Factor for $7,000 - $11,999	20.000
Coverage Amount Factor for $12,000 +	50.000
Category Risk	
Low	0.300
Moderate Low	0.450
Moderate	0.700
Moderate High	1.000
High	1.250

Captive Rating Plan Case Study – Part 3

Policy Data	Policy 1	Policy 2
Time on Platform	1,490 Days	100 Days
Total Weight	125 Pounds	4,000 Pounds
Mileage	496 Miles	742 Miles
Coverage Amount	$2,300	$5,000
Category	Household Goods	Vehicles

Rating Factors	Policy 1 Factors	Policy 2 Factors
Base Loss Cost	0.500	0.500
Time on Platform Factor	0.400	1.000
Total Weight Factor	0.800	1.000
Mileage Factor	6.436	7.263
Coverage Amount Factor	4.000	10.000
Category Factor	1.000	0.300
Loss Cost	4.119	10.895
LCM	2.00	2.00
Premium	8.24	21.79

Rate Change

Exhibit I
ARKANSAS
CNA Commercial Property
Indicated Rate Change
12/31/2011

			Total	2011	2010	2009	2008	2007
(1)	Earned Premium		12,080,747	2,321,676	2,378,089	2,342,549	2,439,858	2,598,576
(2)	Premium Adjustment Factor			0.999	0.997	0.988	0.938	0.861
(3)	Earned Premium at Present Rate Level (1)x(2)		11,529,694	2,319,105	2,371,143	2,315,412	2,287,774	2,236,260
(4)	Limited Property Incurred L&ALAE Excluding Catastrophes Exhibit III			532,422	699,945	412,033	448,594	267,339
(5)	State Property LDF Exhibit IV			1.157	0.930	0.906	0.906	0.905
(6)	State Property Excess Factor Exhibit IV			1.020	1.020	1.020	1.020	1.020
(7)	CW Property LDF Exhibit X			1.220	0.993	0.998	0.999	0.999
(8)	CW Property Excess Factor Exhibit X			1.520	1.520	1.520	1.520	1.520
(9)	Adjusted Property Ultimate L&ALAE (4)x[(5)x(6)x(11)+(7)x(8)x[1-(11)]]		3,455,118	911,271	973,505	573,592	624,556	372,192
(10)	Full Credibility Earned Premium		270,000,000					
	(Selected using CRM to be within 15% of mean 90% of the time)							
(11)	Credibility Square Root [(1)/(10)]		21%					
(12)	Annual Net Property Trend Factor (Exhibit XII)	0.0%						
	Trend Adjustment to	Years						
(13)	7/1/2014	3.50		1.000	1.000	1.000	1.000	1.000
(14)	Trended L&ALAE [(9)*(13)]		3,455,118	911,271	973,505	573,592	624,556	372,192
(15)	Trended L&ALAE Ratio (14)/(3)		30.0%	39.3%	41.1%	24.8%	27.3%	16.6%
(16)	ARKANSAS Catastrophe Load (Exhibit XVI)		7.7%					
(17)	Total Trended L&ALAE Ratio (15)+(16)		37.7%					
(18)	Permissible L&ALAE Ratio (Exhibit XV)		52.3%					
(19)	Indicated Rate Change (18)/(19)-1		-27.9%					
(20)	Complement of Credibility (Exhibit II)		-3.2%					
(21)	Credibility Weighted Rate Change (19)x(11)+(20)x[1-(11)]		-8.4%					
(22)	***Filed Rate Change***		-7.0%					

Actuarial Frequency and Severity

<u>Property DIC</u>
$2 Million Limit

Historical Annual Claim Frequency:	1.000
Prior Selected Annual Claim Frequency:	1.000
Selected Annual Claim Frequency:	1.000
Historical Average Claim Severity:	161,553
Prior Selected Claim Severity:	150,000
Selected Claim Severity:	160,000
Expected Losses:	160,000

Coverage	Comment	Note	Estimated Loss Cost
Property Difference in Conditions			
Business Purpose	Purpose of Coverage: Every Commercial Property Insurance policy has sublimits and coverage limitations. This policy will reimburse property insurance deductibles under the underlying commercial policies subject to a $0 retention (deductible). In addition, this policy will provide coverage excess of the underlying policies as described in the coverage schematics and below including loss of income and extra expense. This policy also provides flood, earthquake and covers the "insured's interests" in real and personal property. Perhaps most significant is the loss of income and property coverage provided at job sites. For projects where is required to purchase the builder's risk, will agree to provide Deductible Reimbursement and Difference in Conditions coverage by endorsement.	Policy will provide a limit of $2,000,000 each occurrence subject to a Policy Aggregate of $2,000,000 No Currently know outstanding claims. is making significant renovations to office which has prompted the firm to move to alternative space during construction.	
Difference in Conditions Policy	The underlying Markel Policy provides $1,600,000 Building Coverage, $250,000 of Business Personal Property and $150,000 of EDP Coverage. All Values seem low. In addition, $873,739 of contractors equipment is provided which includes several mobile offices, golf carts, and storage facilities. Each of the mobile offices has contents which are not specified. Values are same as have been used for past few years.	To develop the DIC policy rate we will use a rate of $1.087 175% of underlying rate (Average Markel and IAT) times the $2,000,000 limit. Adjust for loss cost (90%). Contractors Equipment has a $2.75 rate.	$ 33,660

Coverage	Comment	Note	Estimated Loss Cost
Excess Business Income & Extra Expense	Business income includes project overhead expenses. Includes interruption of operations at a Jobsite.	Extra Expense is the primary risk since the insured may have additional costs associated with a delay at a job site. Many of these projects have defined completion schedules. Ingress and egress are significant hazards. Average 2 methods: (1) $2,000,000 BI and EE (including job sites) at a 3.5% rate and average with a $1,000,000 probable maximum loss per site averaged over 20 years	$ 49,500
Deductible Reimbursement	Policy reimburses a 5% Windstorm Deductible subject to a $25,000 minimum	Fund a $25,000 limit loss over 20 years	$ 1,250
Additional Coverages		20% of the Property and Income Coverage provided above.	$ 16,882
Utility Services Coverage (BI/EE)	Captive will provide a $2,000,000 limit excess of the limit provided by Commercial Insurance Company		
Excess Dependent Properties	Captive will provide a $2,000,000 limit. No reference to underlying coverage. Includes Business Income derived from Dependent Properties. An example of a dependent		
Excess Civil Authority	Captive will provide $2,000,000 limit for Business Income or Extra Expense or property damage arising out of Civil Authority. This coverage is limited to 30 days under the		
Disease, virus and bacteria	The policy will not exclude Disease, Virus or Bacteria, nor the loss of income arising from quarantine or Civil Authority.		

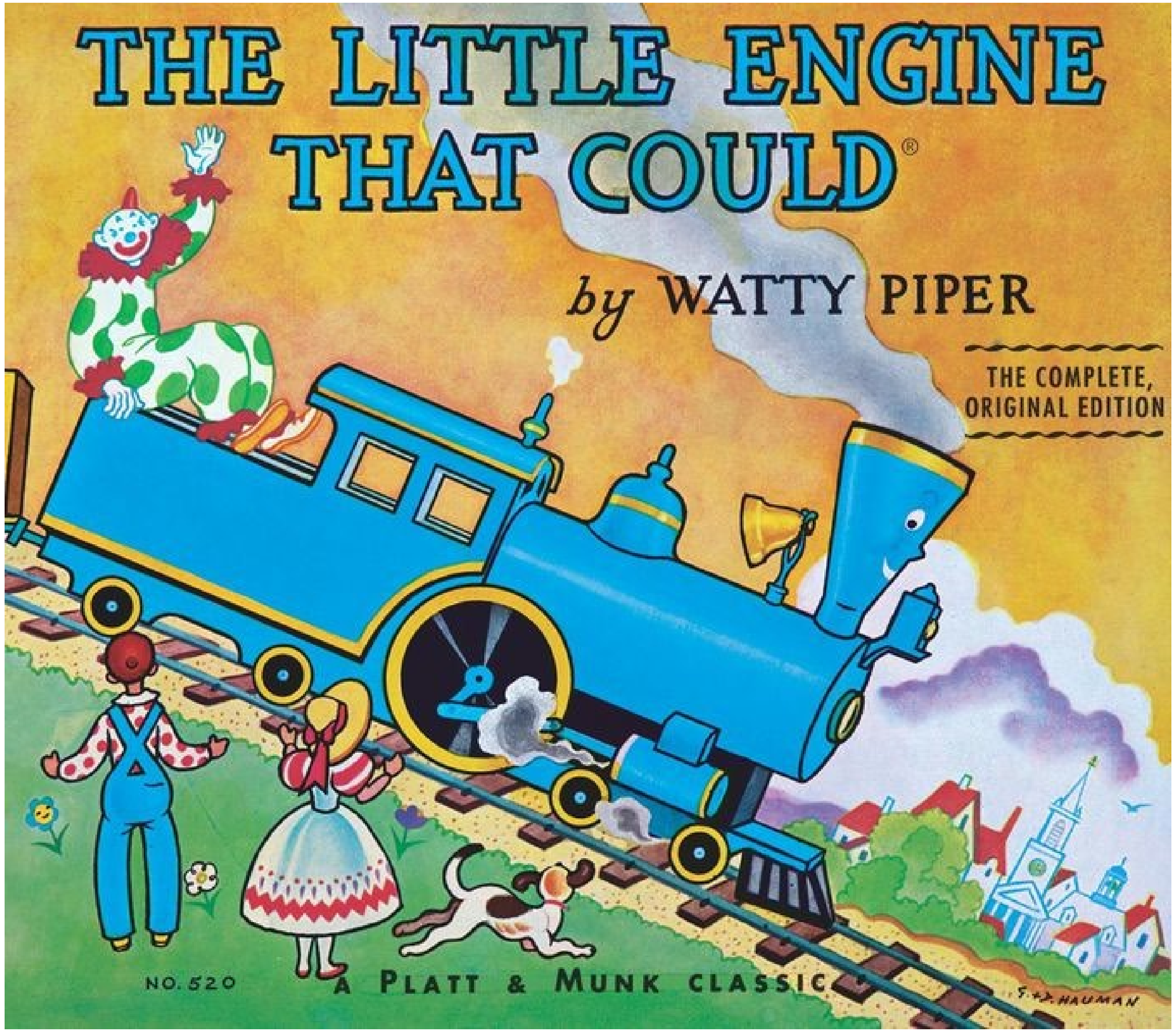
Conclusion

Captive Underwriting is the foundation for the business purpose behind captive ownership.

We believe that the captive is a risk management tool and is just one of several methods of risk transfer and risk financing.

The captive operates like your own commercial insurer—it is a facility to finance risk—not pockets on a pair of jeans.

Although your captive may start out as a little engine, there is no reason that through effective risk management techniques, you can grow that engine into one that is big and powerful.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Questions?