

CAPTIVES

MORE VALUABLE THAN EVER

Unleashed

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Tulsa, Oklahoma


WRCIC
WESTERN REGION CAPTIVE
INSURANCE CONFERENCE, LLC

2024

Measuring Third-Party Risk

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What is Third Party Risk?

Sources

- Customers
- Employees
- Constituents
 - Students
 - Organization members
- Carriers
- Others

Unrelated Risk

- Not from parent
- Not from affiliates

What is Third Party Risk?

But Captives Insure Related Parties!

So Why Would Third-Party Risk Be Relevant?

- Risk Diversification
- Risk Distribution
- Underwriting Profit

What is Third Party Risk?

Risk Diversification

- Theory that multiple lines of business reduces volatility
- Accounts for the likelihood that not all lines of business will develop adversely or favorably at the same time
- Mixing third party risk with related party risk makes your captive safer and more stable

What is Third Party Risk?

Risk Distribution

- Tax concept and required element of insurance for tax purposes
- Insurer collects premiums from enough different insureds so that no one insured is substantially paying its own losses
- Insuring only parent risk or the vast majority of parent risk does not work

What is Third Party Risk?

Risk Distribution: Several Ways to Achieve Risk Distribution

Brother-Sister Arrangements

- 12 entities, each with 5-15% of premium
- Often impractical

Exposure Units

- Recent cases
- Requires very big numbers

Third-Party Risk

- More than 50% per IRS
- At least 29% per courts
- Beware of low frequency pools

What is Third Party Risk?

Underwriting Profit

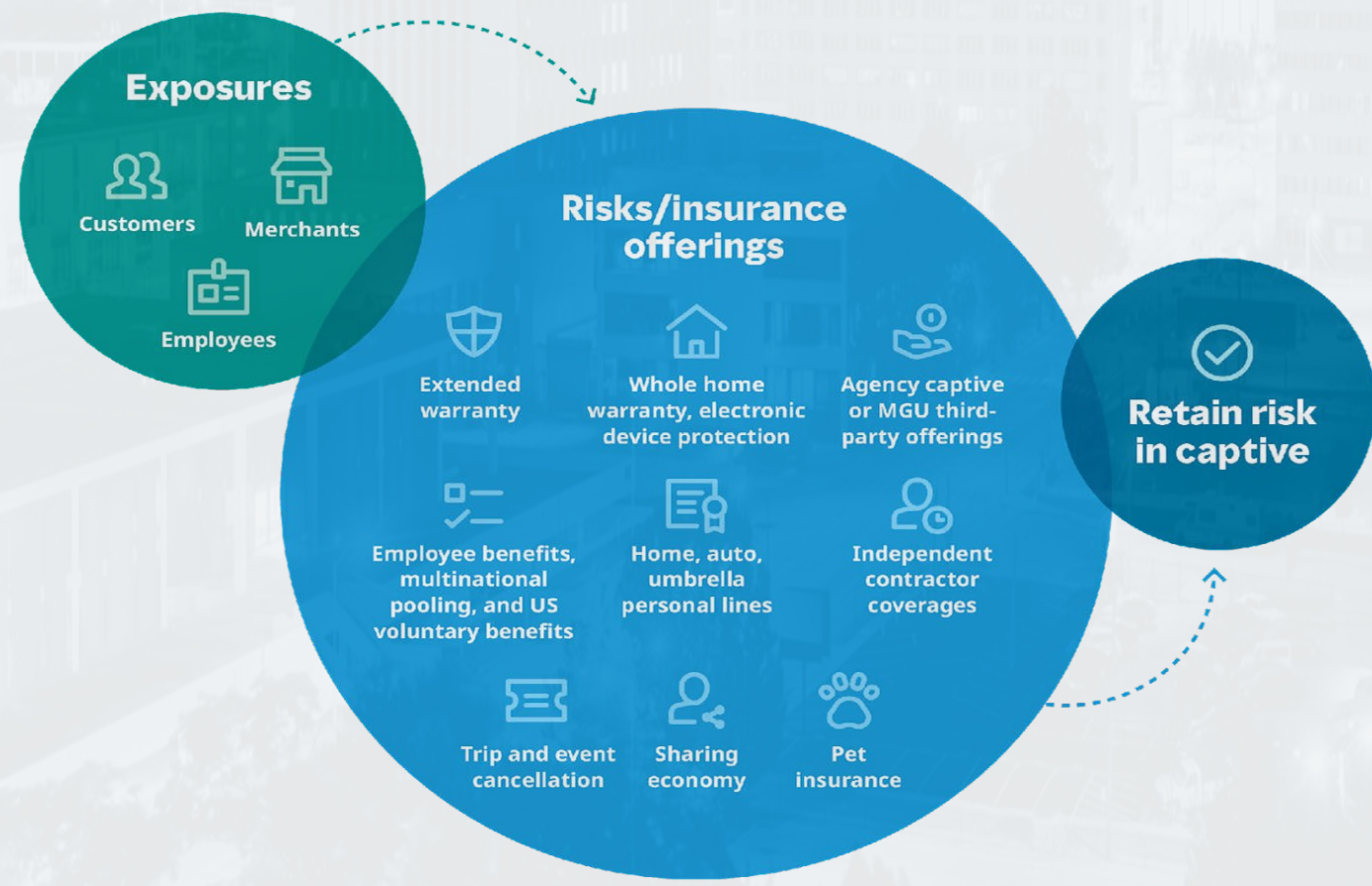
- Using your captive to meet the insurance needs of third parties creates an additional revenue stream
- Underwriting profit from third party risk is true profit

What is Third Party Risk?

How Do I Get It?

- Traditionally: Buy It
 - Reinsure commercial carriers
 - Brokers of third-party risk
- Lately: Create It!
 - Dozens of ideas that Kirk is about to discuss

TURN YOUR CAPTIVE INTO A PROFIT CENTER



- Employees, Contractors, Customers, Franchisees, Vendors, Suppliers, Tenants, Students Association Members
- In 2020, premiums written for third-party unrelated risk grew by 13% from the prior year.
- Over the past five years, third-party premiums grew 85%.

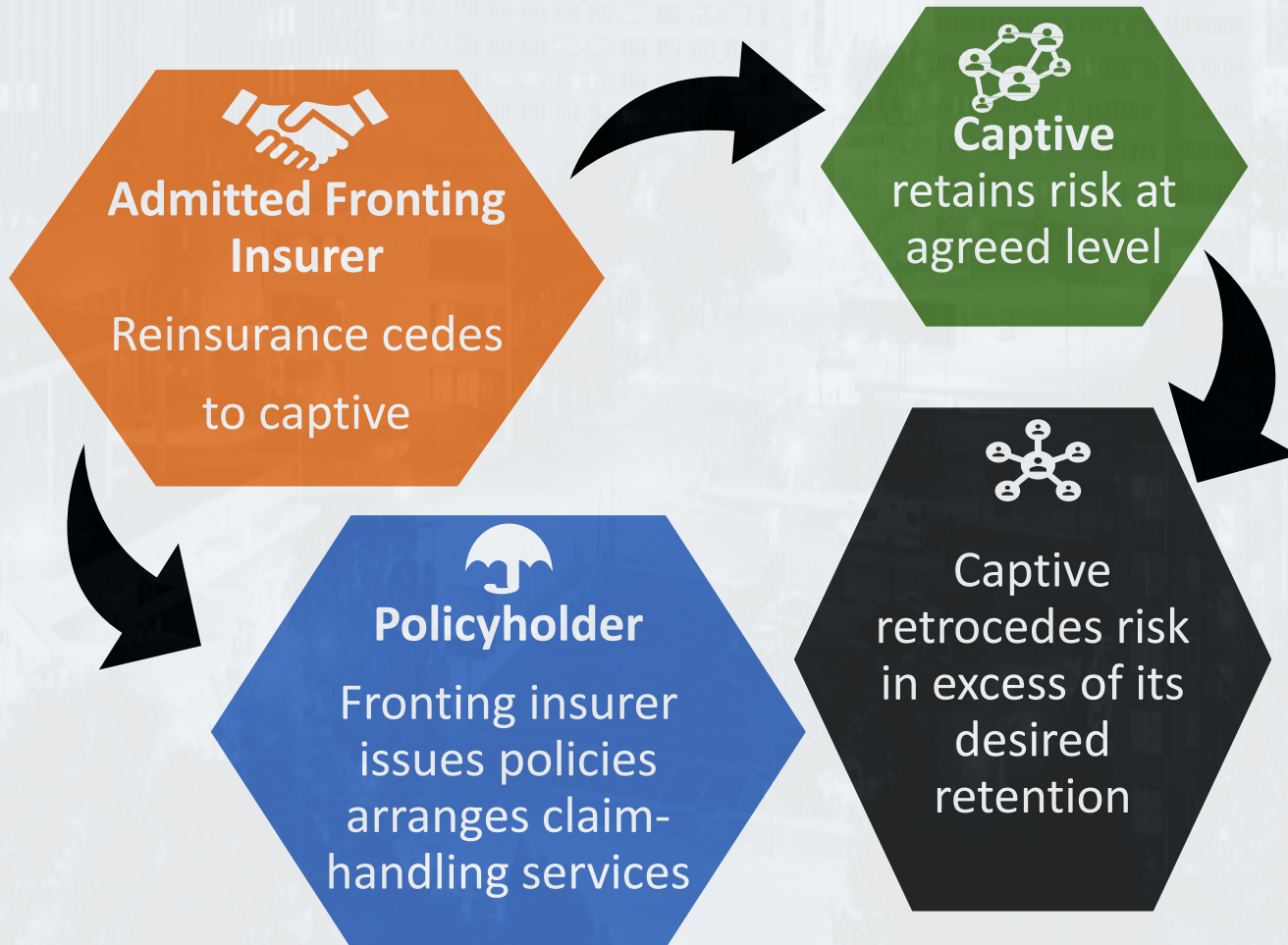
Source: Marsh Captive Solutions 2022 Captive Landscape Report

DO YOU NEED A FRONT?

- Statutory requirement
- Admitted VS Non-Admitted
- Loan covenants
- Bond covenants
- Contractually
- Compliance



Fronted Reinsurance Overview



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Premium for supplemental
employee benefits in 2021

\$11.5 Billion

The Market

96% of companies with over 500
employees offer voluntary benefits

114.4 million renters, 35% of the
U.S. population in 2021

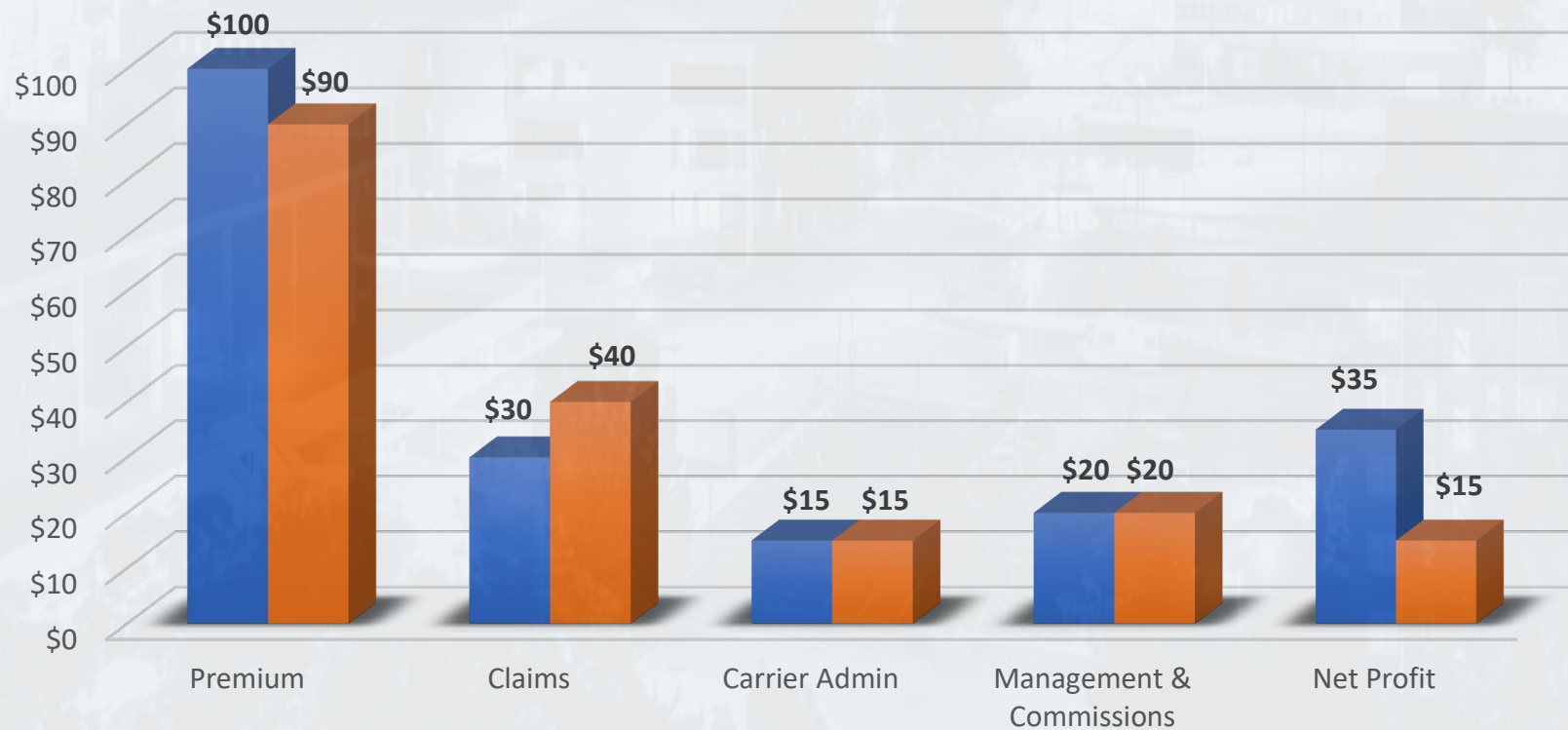
60% of smartphone users have
purchased protection plans

92,000 trade & professional
associations

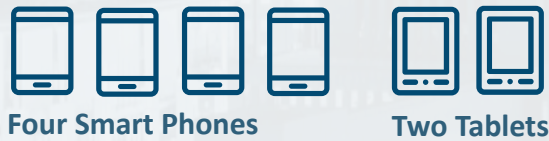
45% of adults subscribe to ID Theft
Coverage service

FINANCIAL BENEFIT EXAMPLE

Fully Insured Carrier Program vs. Captive Program



Innovative Programs: Electronic Device Coverage



\$30 Cover whole family
per month

\$75 Low
Deductible

19 Devices
No limit on covered devices!
~\$1.60 monthly costs per
device



Employees

- Employee benefits
 - ERISA benefits
 - Health and welfare benefits
 - Life, Disability, Supplemental health, vision, dental
 - Non-ERISA benefits
 - ID Theft, Warranty, Pet Insurance
 - Department of Labor considerations
 - Prohibited transaction
 - Pooling of employee risk
 - VEBA Trust
 - Medical Stop-Loss
 - Professional liability



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Suppliers, Franchisees & Contractors

- Product Liability
- Supply chain
- Product recall
- Auto
- Inventory
- Id Theft
- Electronic device
- Specialty equipment
- Supplemental Medical
- Life, Disability



Customers & Association Members

- Value added coverage to strengthen the affinity
 - ID Theft
 - Supplemental medical
 - Life, Disability
 - Vision, dental
 - Electronic device insurance
 - Pet insurance
 - Group auto & home
 - Long term care

Largest U.S. Professional Associations	
Association	Members
National Association of Realtors	720,000
American Bar Association	380,000
American Institute of Certified Public Accountants	330,000
American Medical Association	300,000
Institute of Electrical and Electronics Engineers	274,000
American Registry of Radiologic Technologists	221,000
National Council of Teachers of Mathematics	215,000
American Nurses Association	210,000
National Association of Female Executives	200,000
Association for Supervision and Curriculum Development	198,000
National Association of Professional Insurance Agents	180,000
American Chemical Society	155,000
National Association of Social Workers	155,000
American Psychological Association	151,000
National Notary Association	150,000
American Dental Association	142,000

Students

- Renter's liability
- Security deposit waiver
- Electronic device insurance
- ID Theft
- Student Health
- Supplemental Health
 - Accident insurance



Example of a Large Landlord

- 200,000 Tenants
 - Tenant liability
 - Deposit waiver
- Monetize the existing tenant base
 - ID theft
 - Electronic Device
 - Pet insurance
 - Legal Insurance
 - Group auto & home
- Increased stakeholder satisfaction and retention
- Market differentiator
- Policies can be ported
 - 3-5 years portfolio of millions of dollars in premium from non-tenants



Example of a National Energy Company

- 1,000's of gas stations and mini-marts
- Enhance the existing rewards program
 - Cell Phone Coverage
 - Wheel & tire road hazard
 - Motor club
- Market differentiator
- Increased stakeholder satisfaction and retention



RISK ASSESSMENT

- Choosing a fronting carrier
 - Experience
 - Premium and claims processing
 - Admin/TPA capabilities
 - Technology
 - Service level agreements
 - Admin/fronting fees
 - Collateral
 - Regulatory
 - Reporting and compliance
- Program design
 - Market
 - Underwriting
 - Communications



BENEFITS OF THIRD-PARTY PROGRAMS

- ✓ Profitable
- ✓ Provides a competitive advantage
- ✓ Increased coverage, Lower premiums
- ✓ Increase engagement
- ✓ Increased stakeholder satisfaction and retention
- ✓ Additional capital
- ✓ Funding for key initiatives
- ✓ Administrative Efficiencies
- ✓ Quota share
- ✓ Funds withheld
- ✓ Minimal effort and risk
- ✓ Additional Data
- ✓ Potential Tax Benefits

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TRION GROUP | CONTRIBUTOR FEATURE

INCREASE PROFITABLE THIRD-PARTY BUSINESS WITH MINIMAL EFFORT AND RISK



Kirk Watkins, of Trion Group, a Marsh & McLennan Agency in Philadelphia, PA, shares his thoughts on third party premium and voluntary benefits.

Consider this real world situation: an employer offers a leader a job. The leader declines, but the company still needs to pay for the leader's health insurance. The employer is left with a bill for \$4,000. The employer is left with a bill for \$4,000. The employer is left with a bill for \$4,000.

captive insurance times

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Setting captives alight

Kirk Watkins talks to CIT about Promethean Risk Solutions' unique programmes

UNITED STATES

CAPTIVE REVIEW AWARDS 2023

SHORTLISTED

Captive Innovation Award

Promethean Risk Solutions

PROMETHEAN RISK SOLUTIONS

BUSINESS INSURANCE INNOVATION AWARDS WINNERS

Business Insurance US Insurance Awards

2023 Innovation Award Winner – Promethean Risk Solutions

Business Insurance US Insurance Nominations

2021 Insurance Consulting Team of the Year – Prior Team - Finalist

2020 Insurance Consulting Team of the Year – Prior Team - Finalist

US Captive Review Awards Received

2020 Captive Innovation – Prior Employer

2020 Fronting Partner - Assicurazioni Generali S.p.A. - U.S. Branch

2019 Fronting Partner - Aflac Group Insurance

2019 One To Watch – Kirk Watkins

US Captive Review Awards Nominations

2023 Captive Innovation – Promethean Risk Solutions - Shortlisted

2021 Captive Consultant of the Year – Prior Employer- Shortlisted

2021 Cell Captive Initiatives – Prior Employer- Shortlisted

2020 Captive Service Professional of the Year – Kirk Watkins - Shortlisted

2020 Employee Benefits Network – Prior Employer- Shortlisted

2020 Captive Consultant of the Year – Prior Employer - Shortlisted

2019 Employee Benefits Specialist – Kirk Watkins - Finalist

2019 Reinsurance Company – BenPool Re - Finalist

2017 Employee Benefits Consultants – Prior Team - Highly Commended



MARSH MCLENNAN AGENCY | CONTRIBUTOR FEATURE

THIRD-PARTY PREMIUM FROM A UNIVERSAL APPEALING PR

Stephanie Lefkowitz and Kirk Watkins of Marsh McLennan Agency discuss



The growth in third-party premiums is a multi-year trend. Driven by many highly regarded captive industry resources, the Captive Landscape Report, issued by Marsh McLennan Agency in 2022, predicted that third-party premiums will continue to grow, with some estimates reaching \$100 billion by 2025.

As the market grows, employers are looking for ways to attract and retain top talent. One way to do this is by offering third-party premiums. This can be done in a number of ways, including through a captive insurance company or a third-party administrator.

TRION | CAPTIVE GUIDE

THE BENE CAP SOLUTION

Captive Review speaks to Trion Group Captive Practice Leader Kirk Watkins about Voluntary benefits and driving third party growth.



Kirk Watkins

Voluntary benefits are a key component of an employer's total compensation package. They are a way to attract and retain top talent, and they can be a valuable tool for driving third party growth.

At Trion Group, we offer a wide range of voluntary benefits to our clients. These include health, dental, vision, and life insurance. We also offer a variety of other benefits, such as pet insurance and travel insurance.

One of the ways we drive third party growth is through our Bene Cap solution. This is a captive insurance company that provides a wide range of voluntary benefits to our clients. It is a way to attract and retain top talent, and it can be a valuable tool for driving third party growth.

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FINAL WORD | KIRK WATKINS

Kirk Watkins, strategic business development leader at Trion Group, a Marsh & McLennan Agency LLC, shares his thoughts on what's driving increased activity around employee benefits.

Employee benefits are a key component of an employer's total compensation package. They are a way to attract and retain top talent, and they can be a valuable tool for driving third party growth. At Trion Group, we offer a wide range of voluntary benefits to our clients. These include health, dental, vision, and life insurance. We also offer a variety of other benefits, such as pet insurance and travel insurance.

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