

CONNER STRONG

# captive

STRATEGIES



## CAPTIVE ALTERNATIVE

For many businesses, traditional insurance programs are the only programs ever considered. But that means many organizations overlook the advantages offered by alternative risk programs, such as captives.

We understand that traditional programs aren't always the best fit, and we want to educate our clients about alternatives to the traditional insurance marketplace. That's why Conner Strong & Buckelew created Conner Strong Captive Strategies. Through a proprietary Consultative Review approach, we work with each client to identify the risk financing structure – traditional or alternative – that best addresses their risk profile and strategy. After all, our experience has taught us that the right insurance program – whether for property/casualty or for health – will deliver a positive return on investment.

Unlike traditional, fixed-cost insurance plans, a captive is an alternative program that enables your organization to keep the profits typically earned by insurance carriers when losses are low. The professionals at Conner Strong Captive Strategies leverage our industry knowledge, experience and market relationships to ensure that our clients receive the broadest and most comprehensive risk management solutions offered by a captive insurance program.

### What is a Captive?

An insurance company formed and capitalized under a special purpose statute whose primary purpose is financing the risks of its owners, participants or members. Captives have been around for a long time and there are over 5,500 captives worldwide.

### Why Consider a Captive Program?

Businesses will often look at a captive alternative for one of the following reasons:

- > Alternative to the standard insurance market
- > Unbundling of carrier services
- > Insuring currently uninsured or hard to insure risks
- > Business operations/Estate Planning
- > Utilization of large deductibles or retentions
- > Direct access to reinsurance market
- > Cash flow benefits
- > Potential accelerated tax deductions

Captives can be beneficial in both the Employee Benefits and Property & Casualty areas.

## EMPLOYEE BENEFITS

Captives can be used to provide various types of coverage within the Employee Benefits arena:

- > Life
- > Retiree Medical
- > Disability
- > Medical Stop Loss

One example is a "Medical" Stop Loss Benefits Captive:

### How & Why it Works

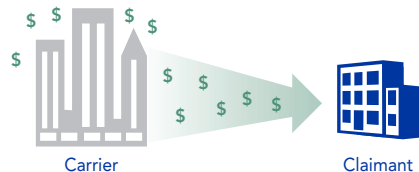
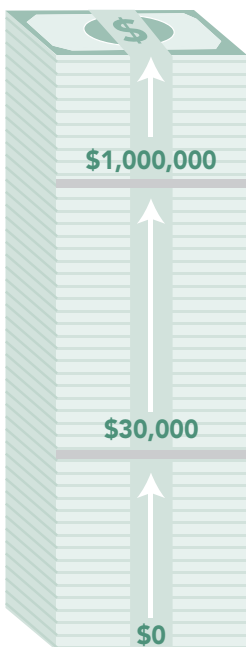
A stop-loss captive works by pooling stop-loss claims at certain layers for multiple organizations into a single fund – the captive layer. Member organizations keep a large percentage of the premiums paid to carriers under fully-insured plans. Simultaneously, captive members are better equipped to manage financial risk exposures by transferring a portion of the risk to a separate entity.

Logistically, member organizations pay in a specified premium and up-front collateral based on actual experience and losses. If in any given policy period the captive losses exceed premiums collected, then the collateral is used. On the other hand, any surpluses in the pooled stop-loss level are distributed as dividends.

## HOW A STOP-LOSS CAPTIVE WORKS

### TRANSFER: Catastrophic Insurance & Program Expenses

Carrier pays all covered individual claims above \$1,000,001



- > Stop-loss carrier assumes the responsibility for paying all individual claims above \$1,000,001, plus aggregate on captive

### SHARE: Captive Layer

Companies share cost of individual claims between \$30,000 and \$1,000,000



- > Member companies pay premium to purchase stop-loss coverage for individual claims between \$30,000 and \$1,000,000, plus aggregate for each employer
- > Both stop loss captive and the stop loss carrier absorb risk and assume claims.
- > Member companies share in economic (claims and surplus) results

### RETAIN: Self-Insured Layer

Company incurs all costs for individual claims under \$30,000



- > Company assumes all specific claims under \$30,000
- > Company maintains full control at this level
- > Claims are not shared/pooled among member companies

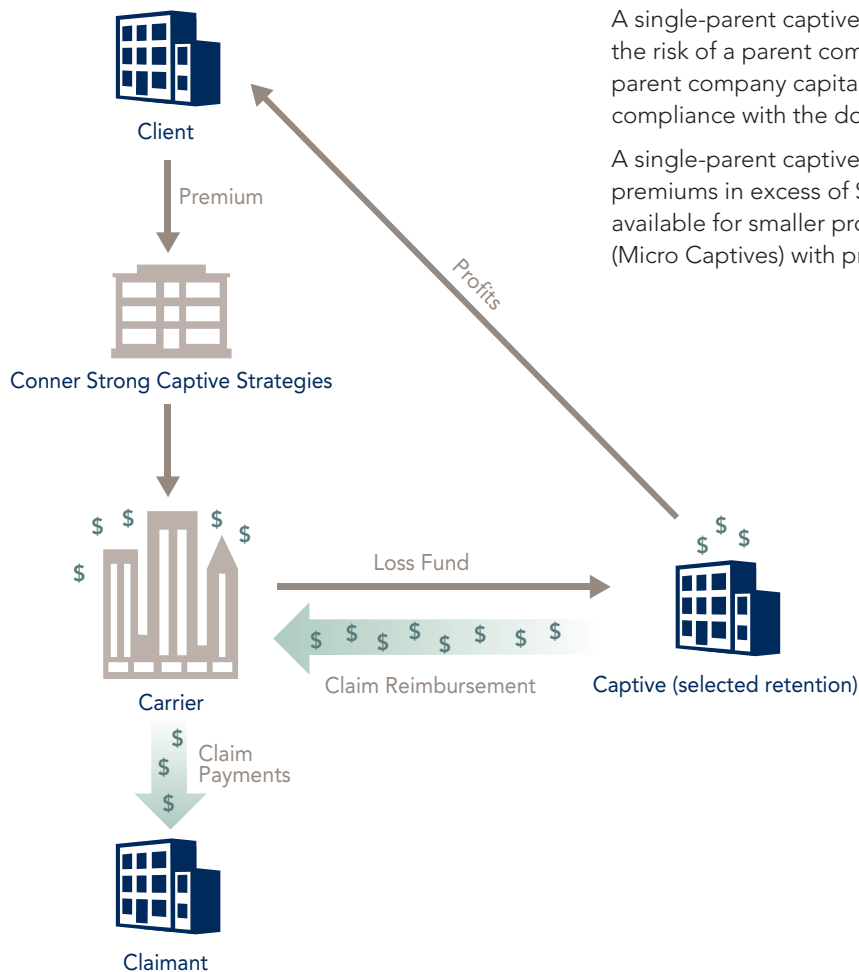
## PROPERTY AND CASUALTY CAPTIVE SOLUTIONS

There are various types of Property & Casualty captives such as:

- > Single Parent Captive
- > Group Captive
- > Micro (Small Insurance Company) Captive
- > Segregated Cell (Rent-A-Captive)

Below is a brief analysis of how these captives work:

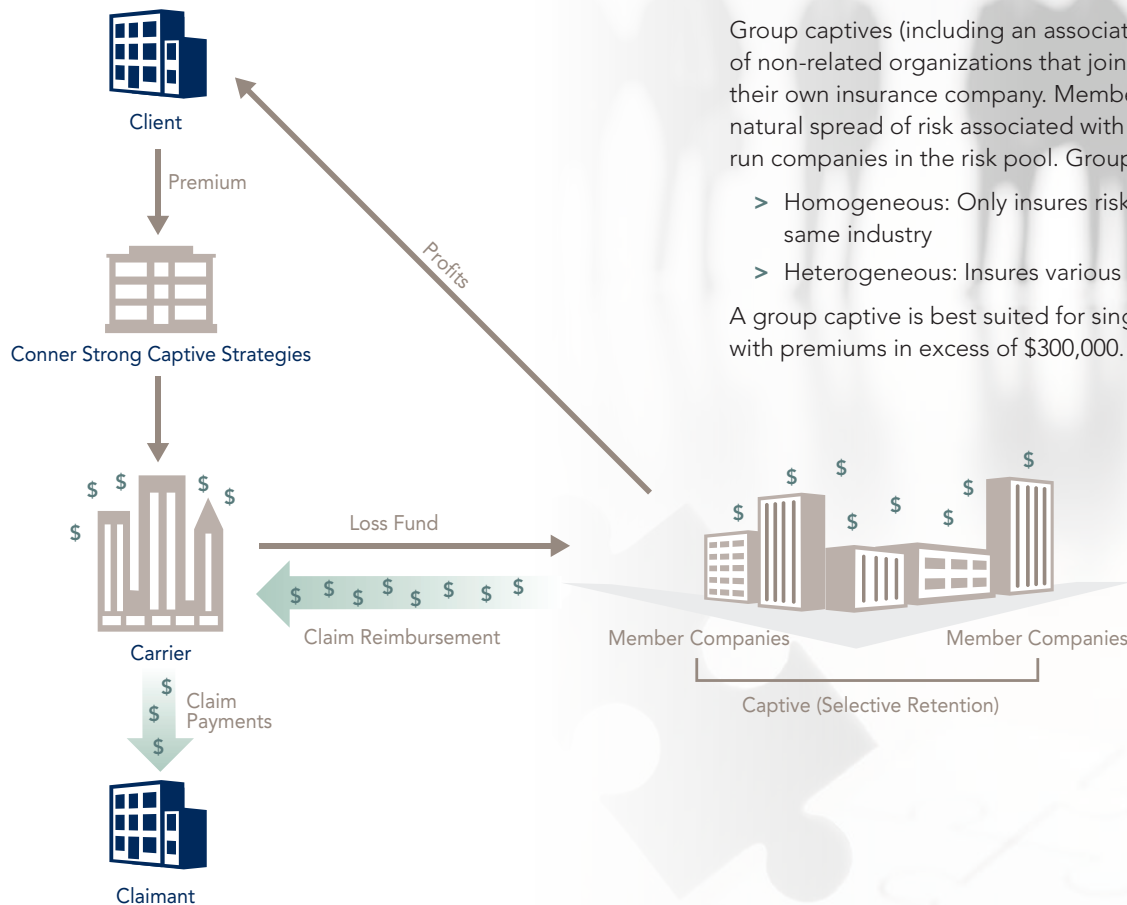
### HOW A SINGLE-PARENT CAPTIVE WORKS



A single-parent captive is designed for companies insuring the risk of a parent company and its subsidiaries/affiliates. The parent company capitalizes the captive insurance company in compliance with the domicile in which it's incorporated.

A single-parent captive is best suited for companies with premiums in excess of \$2 million. Captive solutions are also available for smaller property and casualty insurance companies (Micro Captives) with premiums of \$1.2 million or less.

## HOW A GROUP CAPTIVE WORKS



Group captives (including an association) are for groups of non-related organizations that join together to form their own insurance company. Members capitalize on the natural spread of risk associated with joining other well-run companies in the risk pool. Groups can be either:

- > Homogeneous: Only insures risks within the same industry
- > Heterogeneous: Insures various industries

A group captive is best suited for single organizations with premiums in excess of \$300,000.

## HOW A RENT-A-CAPTIVE WORKS

A rent-a-captive enables an organization to "participate" in an existing captive formed by an insurance company and/or third party sponsor. Rather than forming and capitalizing their own captive, organizations rent the capital/surplus of an existing captive facility. This type of captive can be accessed for a fee by a group of companies or an individual organization.

A rent-a-captive is best suited for single organizations with premiums in excess of \$1.0 million or groups with premiums in excess of \$3 million.

## GETTING STARTED

Conner Strong Captive Strategies can help you determine whether a captive, or other program, is the best fit for you through our consultative and collaborative risk assessment approach. Our consultative process includes three distinct phases:

### 1. Pre-Feasibility

- > Captive 101 consultative educational sessions
- > Understanding of corporate organizational structure and overall strategy
- > Collection and analysis of current insurance programs (limits, premiums, coverage, retentions, exclusions, losses)
- > Identification of insurable risks, self-insured risks and uninsurable risks
- > Identification of type of captive (single parent, rental captive or group captive)

### 2. Feasibility Study

- > Actuarial analysis
- > Financial pro-forma (income statement and balance sheet)
- > Captive structure(s) compared to other insurance programs
- > Domicile identification and selection
- > Identification of third-party service providers

### 3. Implementation

- > Captive business plan
- > Interaction with captive manager and domicile regulator
- > Policy wording/creation
- > Licensing and incorporation

Serving as both your captive manager and strategic partner, we'll work with you every step of the way to select the right program for your organization. At every step of the process, you have access to Conner Strong Captive Strategies extensive support services and preferred partners, enabling you to do more than with a traditional insurance plan.

**Contact us today at 1-877-861-3220.**





CONNER STRONG  
**captive**  
STRATEGIES  
1-877-861-3220

