



CAPTIVERESOURCES.
Insurance, reimagined.

Introduction to Captive Insurance



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Agenda

- Introduction
- Captive Overview
- Captive Structure
- Funding for Losses
- Financial Requirements

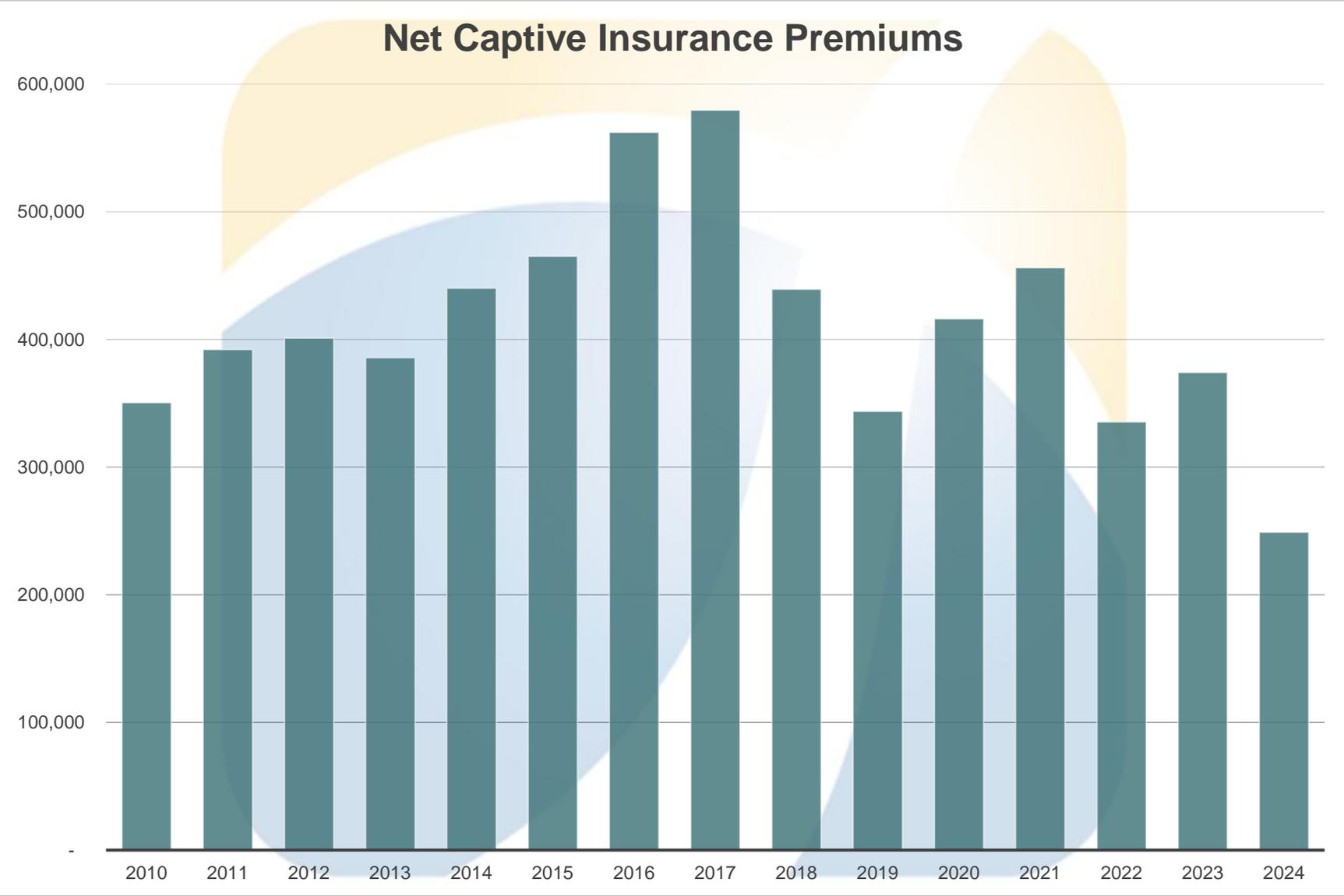
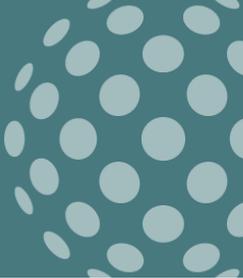


Benefits of a Group Captive



- **Reduced insurance costs**
 - **Not penalized for future years based on a bad year**
 - **Premiums paid to captive are not taxed**
 - **No insurance company retaining profits**
 - **Members get dividends**
- **Insulation from market fluctuations**
- **Improved risk control and safety**
- **Increased control over claims management**
- **Board meetings**
 - **Twice a year; typically Canada in September and Caribbean in February**

Case Study – Salem Media Group



Are We: Captive Sources



Independent consultant with nearly 40 years of experience



Administers over 45 group captive programs



Over 6,500 shareholders with premiums exceeding \$4.5B annually



\$4B in total distributions to member-companies since inception



Strategic consultant to Captive Investors Fund with ~\$9B in total assets

WHAT IS A CAPTIVE?

An insurance company that provides insurance to and is *controlled* by its *owners*.





Single
Parent

Group

Rent-A-
Captive

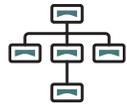
Agency

Group

- Homogeneous
- Heterogeneous

Types of Captives

GROUP CAPTIVES



Heterogeneous Captives

Companies from across a wide variety of industries with medium-low hazard risk profiles.



Homogeneous Captives

Companies in the same industries and risk profiles.



Medical Stop Loss Group Captives



Property Captive

ABOUT GROUP CAPTIVES



**All insureds are
owners**



Board of Directors
One vote per member



**Risk and claims
management is critical**



**Incorporated under
Cayman Islands law**

Why Consider a Group Captive

01



**Control Over
Insurance
Destiny**

02



**Enhanced
Loss
Prevention &
Claims
Management**

03



**Potential for
Meaningful
Cost
Reduction**

04



**Return of
Underwriting
Profits and
Investment
Income**

Group Captives: By the Numbers

Captive Members Are Safer Than the Average Company:

- CRI captive members have fewer fatalities and WC claims compared to industry benchmarks
- 48% fewer fatalities vs. Industry Benchmarks
- 39% less Lost Time Claims which saved approx. \$153M in claims
- 22% less Total WC Claims

*Based on an Independent actuarial analysis on actual WC exposure and claims data of group captive member companies compared to national industry data from the Bureau of Labor Statistics. Average claims costs by injury type from the National Council on Compensation Insurance were used to quantify the financial impact.

Safety Pays Dividends in Group Captives

- CRI captive members have earned over \$4B in dividends since inception
- On average, 23% of the members loss funds were paid out as dividends
- Members earned dividends in 98% of all accident years
- In over 60% of all accident years, captive members earned dividends of over 30% with an average dividend of 34%

WHY ARE OVERALL COSTS LOWER?



Experience-rated premium development



Insulation from market conditions



Best-in-class risk pool



Enhanced risk/claims management



Lower operating costs



Dividend potential

Best-in-class loss history



Financially stable



Entrepreneurial
mindset



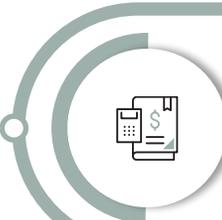
Long-term
approach



Committed to safety



Archway:
Minimum premium of
\$500,000



Ideal Candidate Company Profile



Q&A

GO

QUESTIONS



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What is Archway?

Formed In: 1994

Captive Type: Heterogenous

Members: Over 295

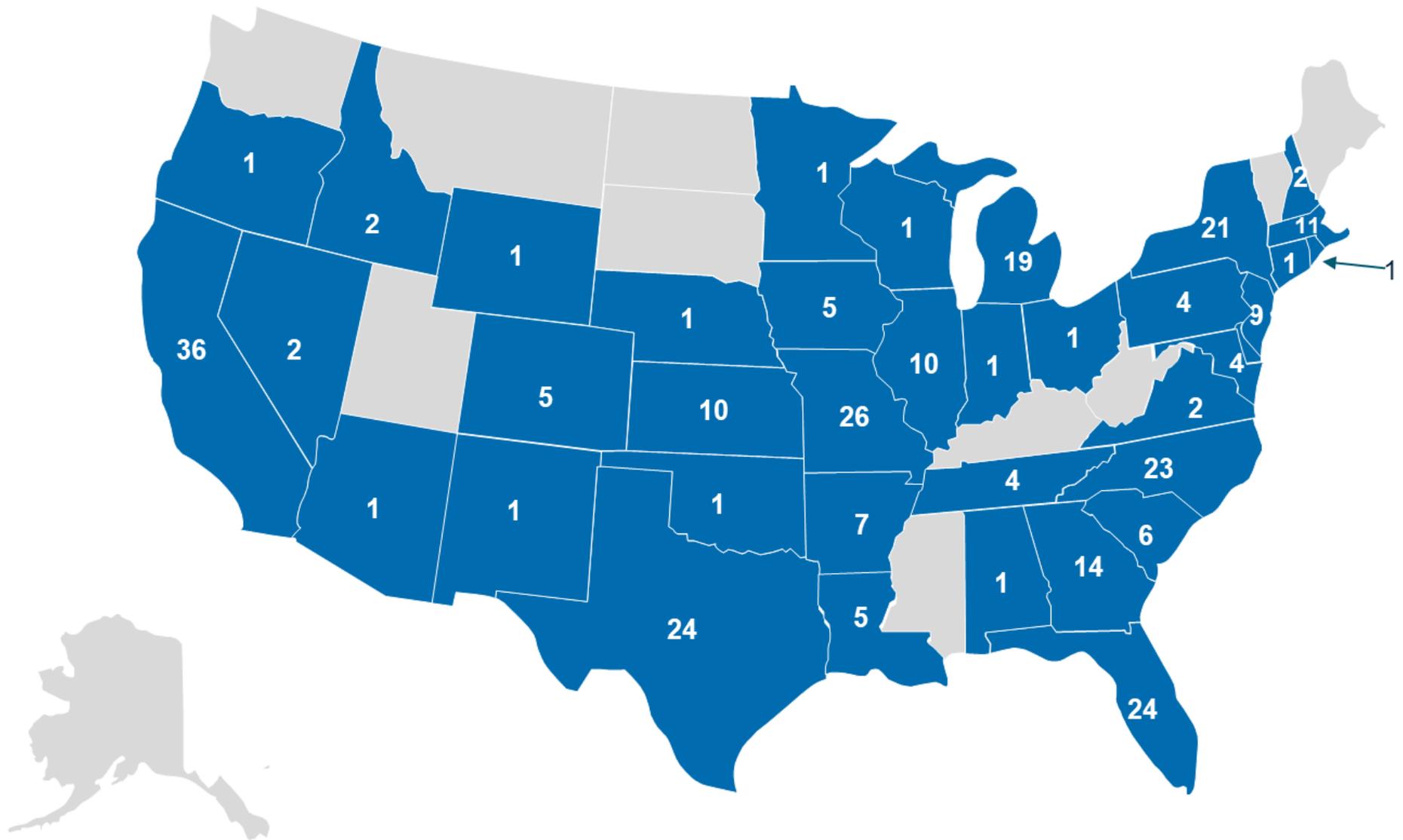
Premium: Over \$375 Million

Minimum Premium: \$500,000

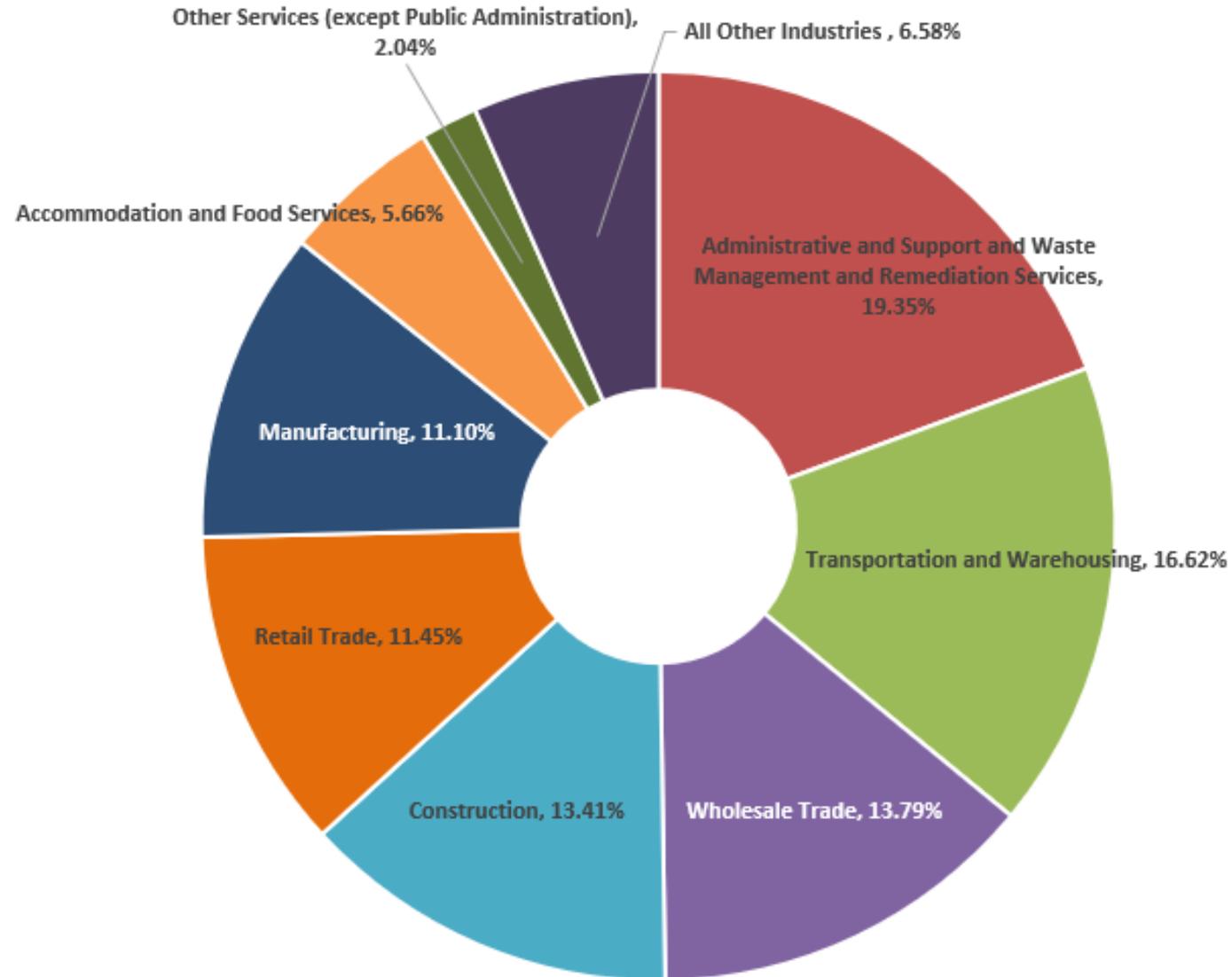
Renewal Date: March 1



Archway Members by State



Archway Premium by Industry



Captive Structure



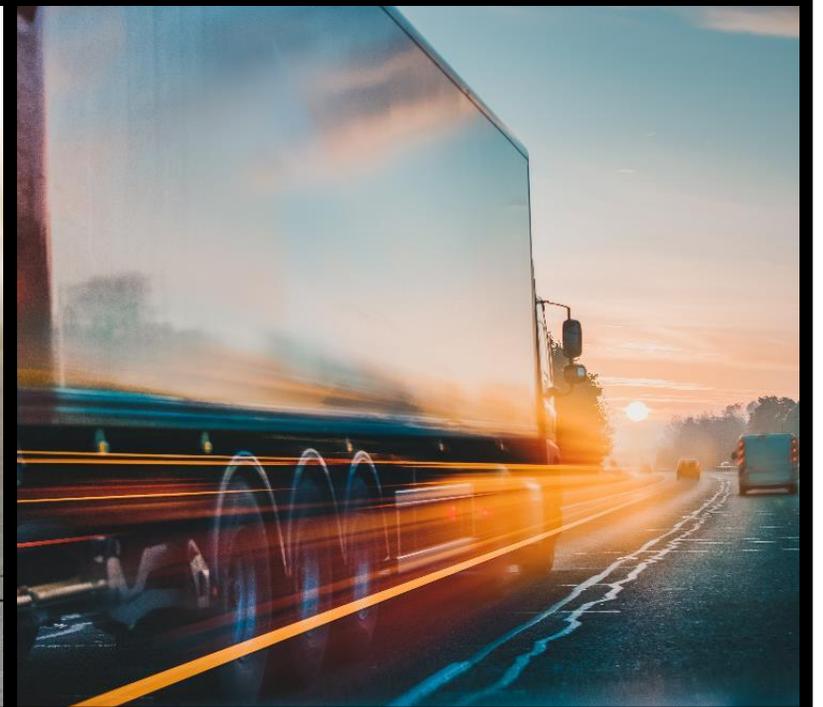
Lines of Coverage



**Workers'
Compensation**

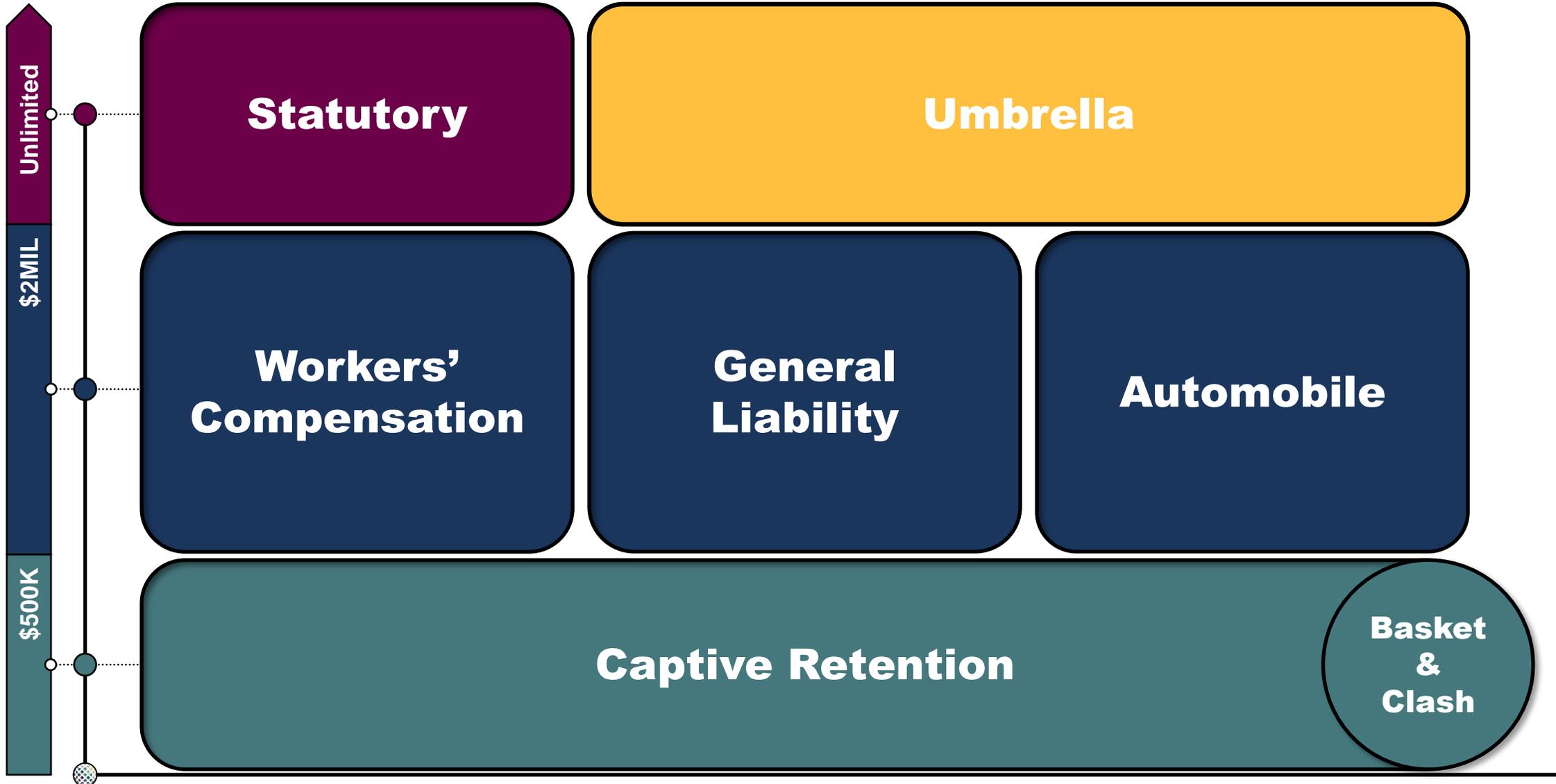


**General
Liability**

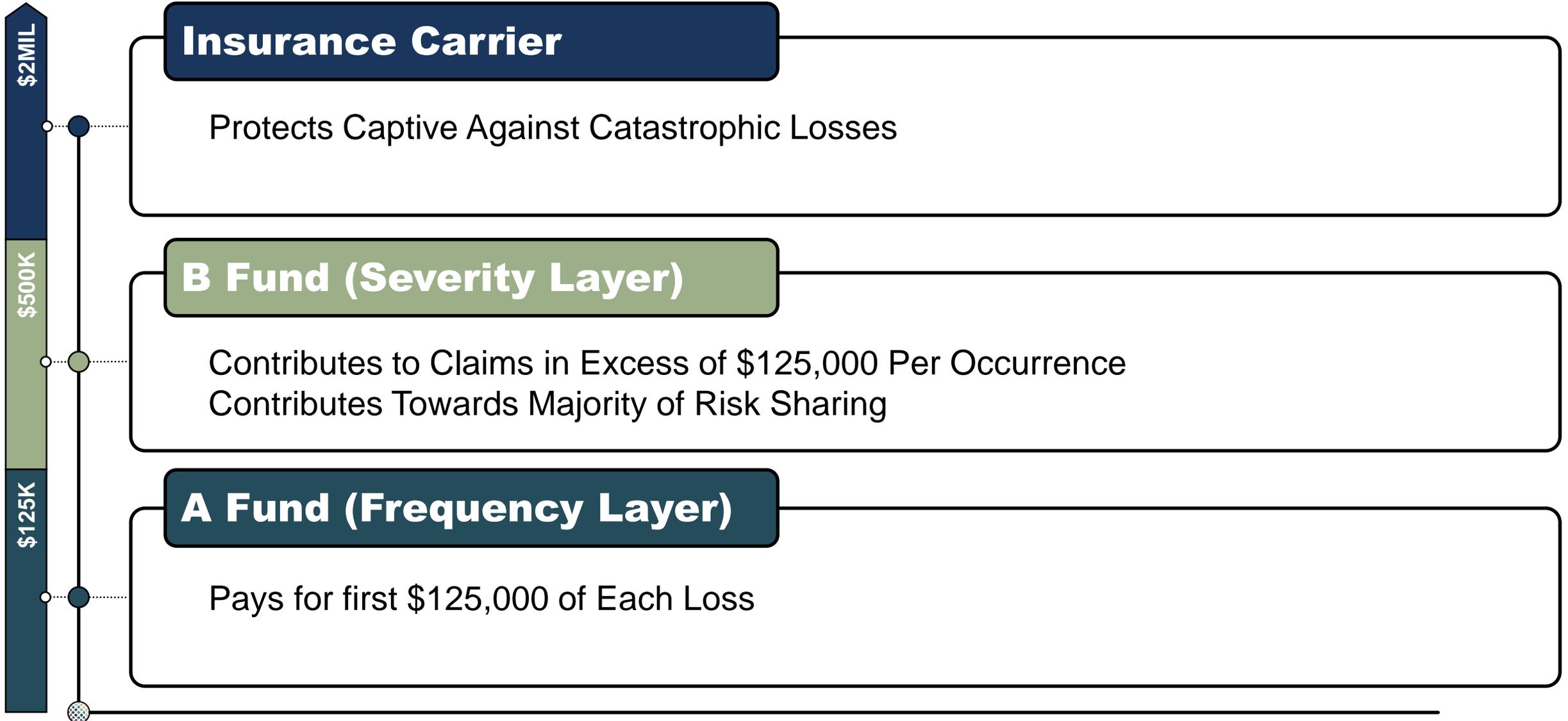


Automobile

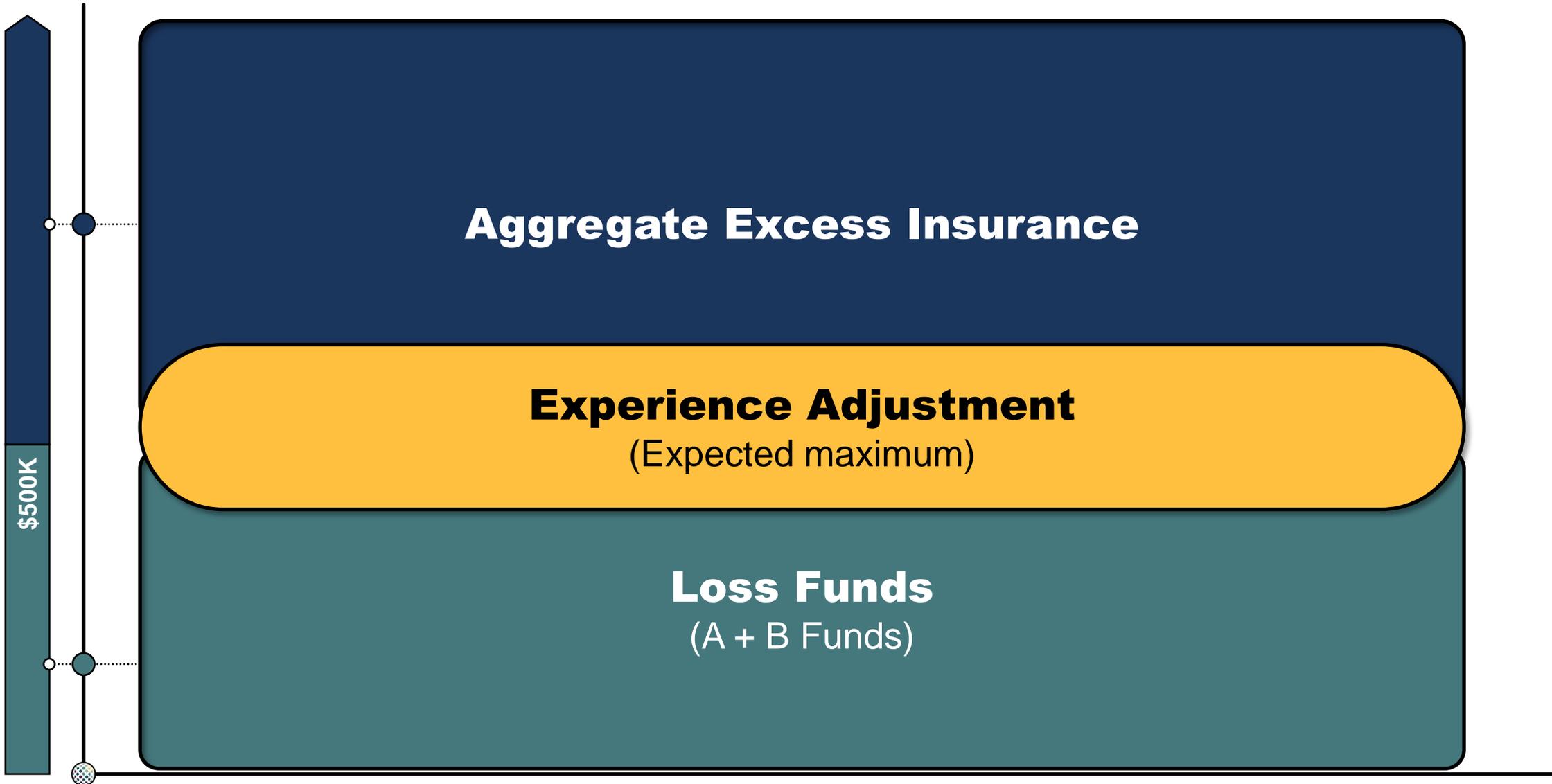
Group Captive Model



Group Captive Structure



Group Captive Structure



The image is a composite. The top portion shows a city skyline at sunset, with the sun low on the horizon, casting a golden glow through scattered clouds. The sky transitions from a pale blue to a soft orange. A large teal semi-transparent rectangle is overlaid on the left and center of the image. Inside this rectangle, the text "How Does the Captive Work?" is written in a large, bold, white sans-serif font. To the right of the teal rectangle, a white sailboat with a single mast and a large white sail is visible on the water. The water is dark blue with some ripples. In the background, a tall skyscraper is visible against the sunset sky.

How Does the Captive Work?

The image is a composite background. The top half shows a city skyline at sunset, with a teal semi-transparent overlay on the left side. The bottom half shows a sailboat on the water. The text "Funding for Losses" is overlaid on the teal area.

Funding for Losses

Funding Structure

Sample Member

Loss Forecast

\$610,000

Operating Costs

\$270,930

Premium

\$880,930

State Surcharges

\$0

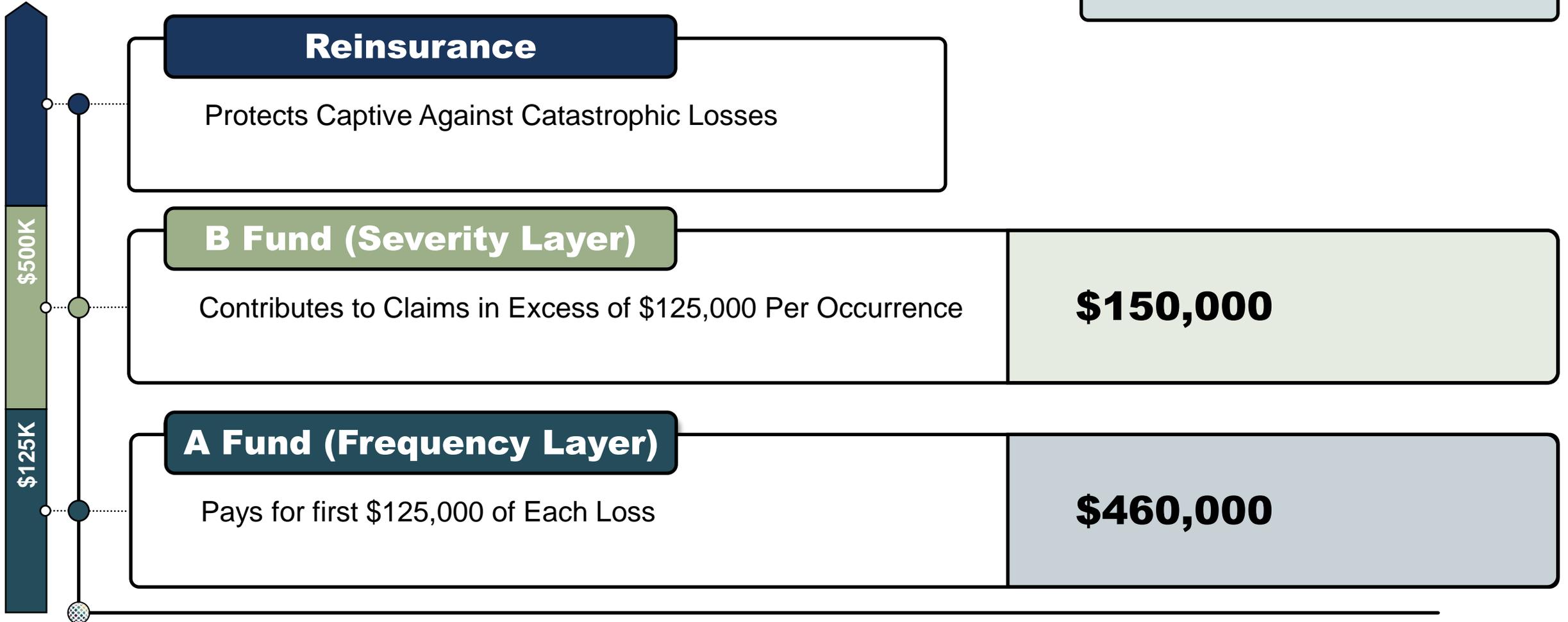
Broker Fee

\$0

Total Pay-In

\$880,930

Loss Funding



Loss Fund

\$610,000

Reinsurance

Protects Captive Against Catastrophic Losses

B Fund (Severity Layer)

Contributes to Claims in Excess of \$125,000 Per Occurrence

\$150,000

A Fund (Frequency Layer)

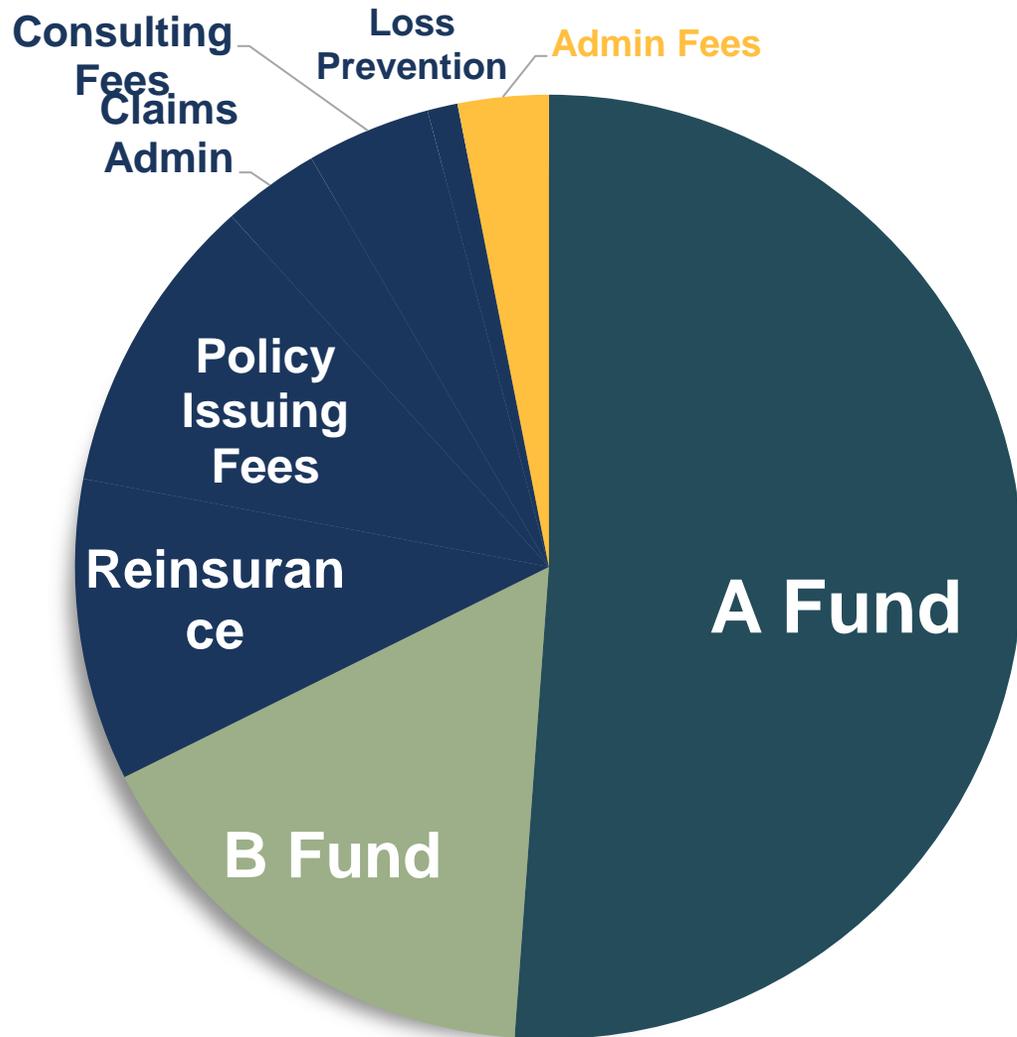
Pays for first \$125,000 of Each Loss

\$460,000

\$500K

\$125K

Premium Breakdown



A Fund

B Fund

Operating Costs

Fixed % of the premium; determined at renewal.

- Policy Issuance
- Reinsurance
- Claims Admin
- Consulting
- Loss Prevention

Administrative Expenses

Average 1-3% of Premium.

- Board Meeting Costs
- Actuarial Fees
- LOC Fees
- Management Fees
- Audit Fees
- Financial Analyst Fees
- Tax Fees
- Government Fees

A Distribution Year



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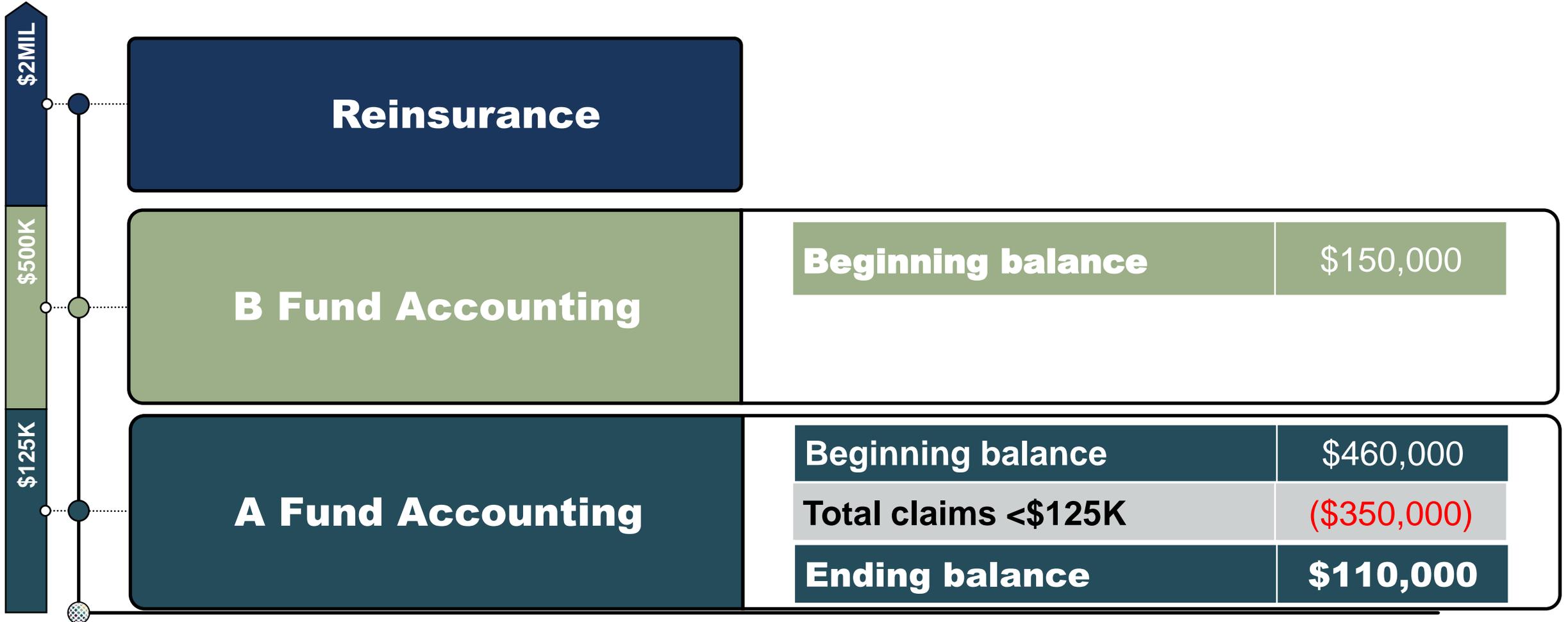
Distribution Year Example

Claims <\$125K

\$350,000

Cat. claims

\$0



Distribution Year Results

A Fund	\$110,000
B Fund (before risk sharing)	\$150,000
Est. Investment Income	\$70,000
Est. return¹	\$330,000

1. Less IBNR/closing costs

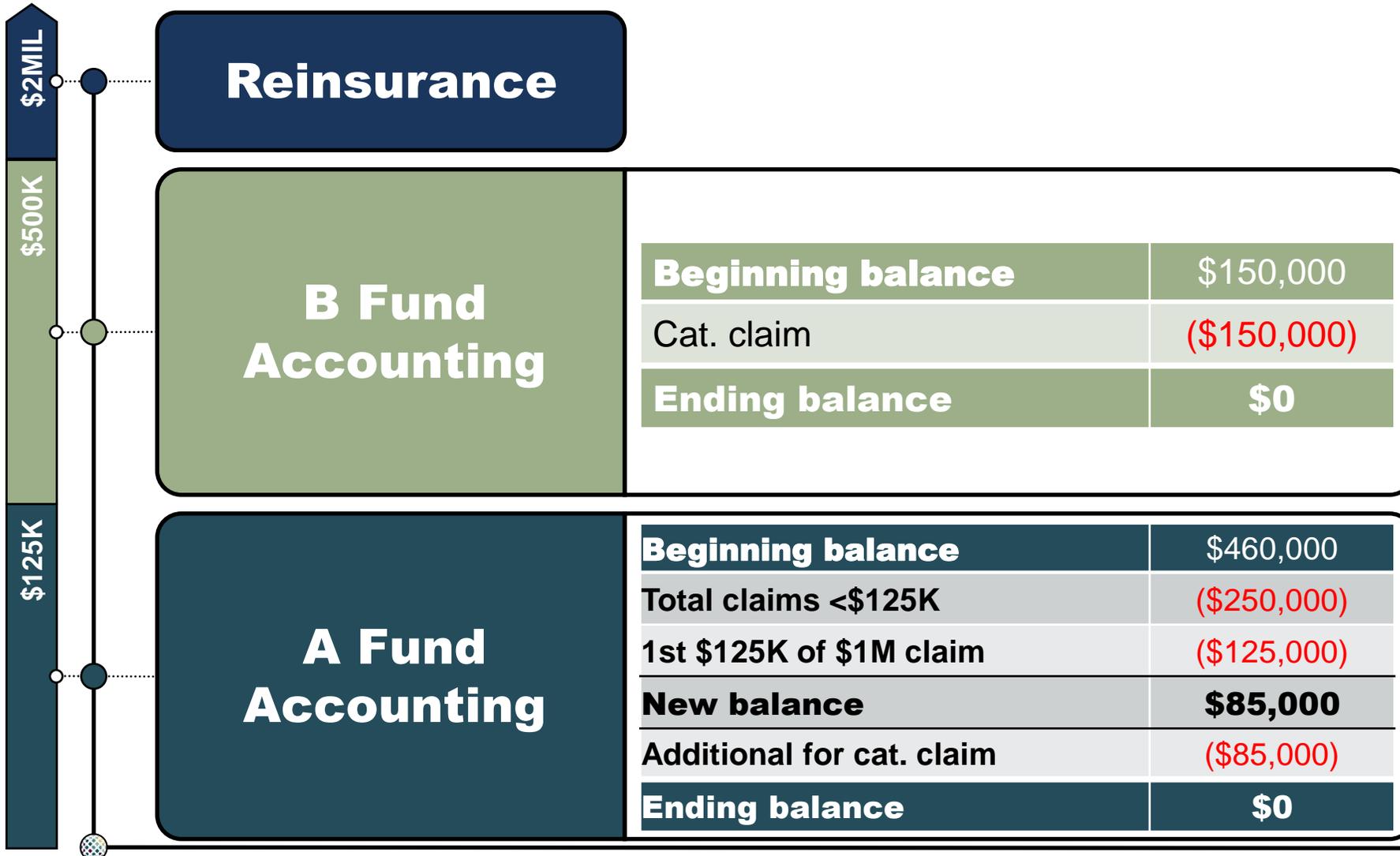
RISK SHARING YEAR

**\$250,000 of total claims less than \$125,000
and a \$1,000,000 catastrophic claim**



Risk-Sharing Year Example

Claims <\$125K	\$250,000
Cat. claims	\$1,000,000



Reinsurance

B Fund Accounting	
Beginning balance	\$150,000
Cat. claim	(\$150,000)
Ending balance	\$0

A Fund Accounting	
Beginning balance	\$460,000
Total claims <\$125K	(\$250,000)
1st \$125K of \$1M claim	(\$125,000)
New balance	\$85,000
Additional for cat. claim	(\$85,000)
Ending balance	\$0

Claim	\$500,000
A Fund	(\$125,000)
Balance	\$375,000
B Fund	(\$150,000)
Balance	\$225,000
A Fund	(\$85,000)
Balance	\$140,000
B Fund Risk Sharing	

Risk-Sharing Year Results

Majority of loss reinsured away



No additional premium required



Investment income still earned on loss funds



Cat claim capped at \$125K for actuarial purposes,
minimum impact on future premiums



Impact on risk sharing is minimal



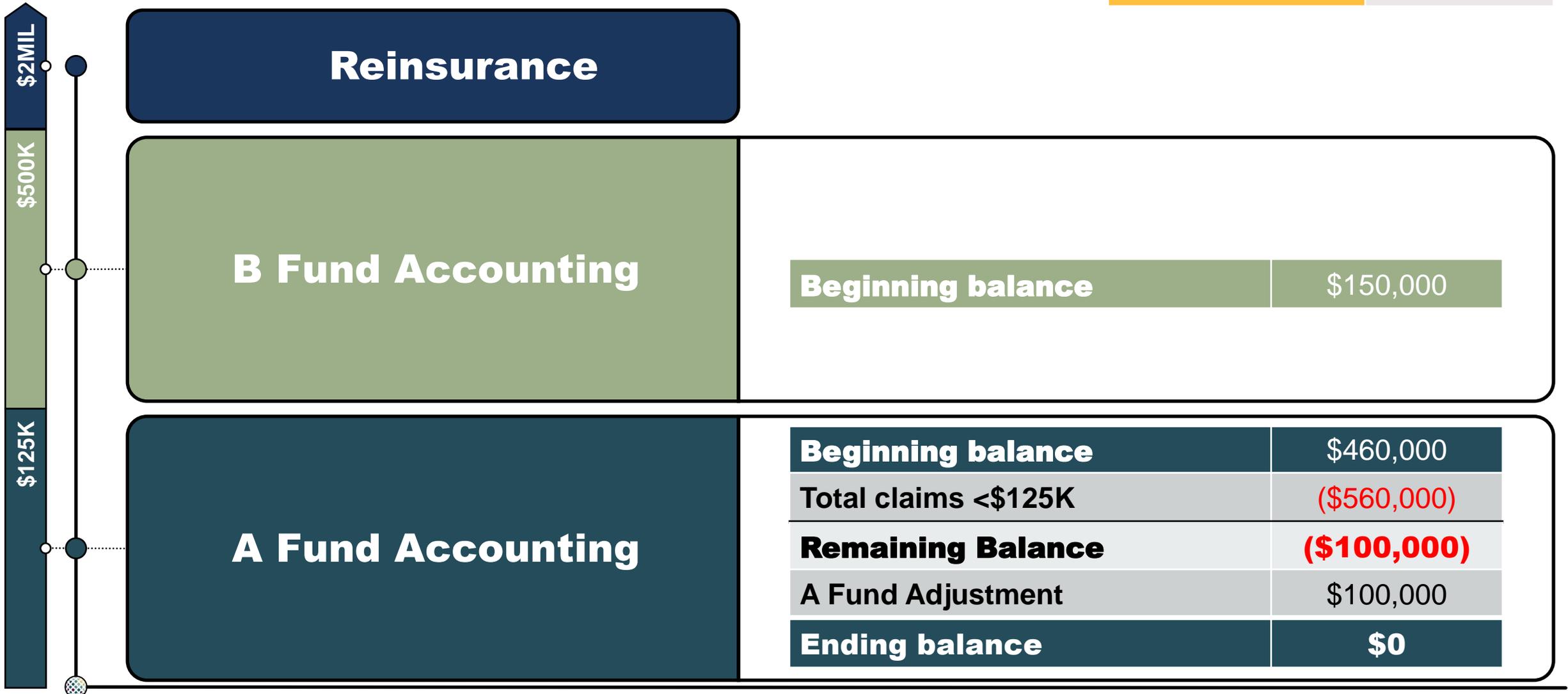
HIGH FREQUENCY LOSS YEAR

\$560,000 of total claims less than \$125,000



High-Frequency Year Example

Claims <\$125K	\$560,000
Cat. claims	\$0



High-Frequency Year Results

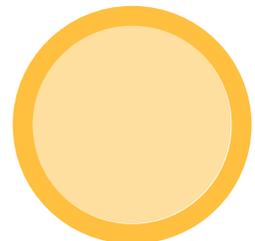
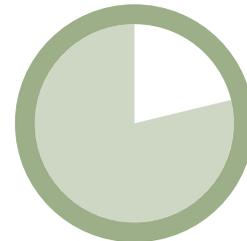
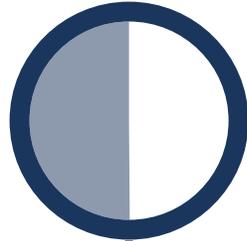
A Fund	\$0
B Fund (before risk sharing)	\$150,000
Est. Investment Income	\$20,000
Estimated Return	\$170,000
A Fund Adjustment Paid	(\$100,000)
Est. Costs¹	\$70,000

1. Less IBNR/closing costs

The image is a composite. The background is a sunset over a city skyline, with the sun low on the horizon, casting a golden glow. The sky is filled with soft, colorful clouds. In the foreground, there's a body of water with gentle ripples. A teal semi-transparent rectangular overlay covers the left and center portions of the image. On this overlay, the text "How are Adjustments Funded?" is written in a large, bold, white sans-serif font. To the right of the teal overlay, a white sailboat with a black sail is visible on the water, with the city skyline in the background.

How are Adjustments Funded?

Experience Adjustments



YEAR 01

YEAR 02

YEAR 03

YEAR 04

\$880K

premium paid

A Fund claims exceed A
Fund contributions by
\$100,000

50%

of adjustment due

Paid Quarterly
\$100,000
(50,000)
\$50,000

80%

of adjustment due

Paid Quarterly
\$50,000
(30,000)
\$20,000

100%

of adjustment due

Paid Quarterly
\$20,000
-(20,000)
\$0



**Capital
(Shares
)**

**Financial
Requirements:
What's The
Investment?**



**Security
(Collateral)**



**Capital
(Shares
)
\$36,000**

Common Share: \$100

- Voting rights
- Retains obligations for assessments & security collateral.

Preferred Share: \$35,900

- Retains dividend right.
- Shareholder can differ from Common Share.
- Share can be fractionalized.



Security (Collateral)



**Letter
of
Credit**



Cash

Functions

- Member-to-member obligations
- Capitalizes the captive
- Collateralizes policy issuing carrier

Determining Collateral

2 x A Fund = \$920K

**Year
1**

2/3 x A Fund = \$306,666

**Year
2**

**2/3 x A Fund = \$306,666
Total Collateral =
\$613,333**

**Year
3**

**2/3 x A Fund = \$306,666
Total Collateral = \$920K**

Determining Collateral

2 x A Fund = \$920K

**Year
1**

**Year
2**

**Year
3**

**Year
4**

2x Rolling 3 year A Fund Average

Determining Collateral

2 x A Fund = \$920K

**Year
2**

**Year
3**

**Year
4**

**Year
5**

2x Rolling 3-year A Fund Average

Formula Summary: Control Your Costs

A Pay-In Premium =
Fund + B Fund + Operating Costs

2x A Expected Max =
Fund + B Fund + Operating Costs

2x Average A Collateral =
Fund Rolling 3-year Period

A Fund Frequency Losses

-  Most controllable layer of risk

-  Most directly effects pricing

-  Most directly effects profit

Questions

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