

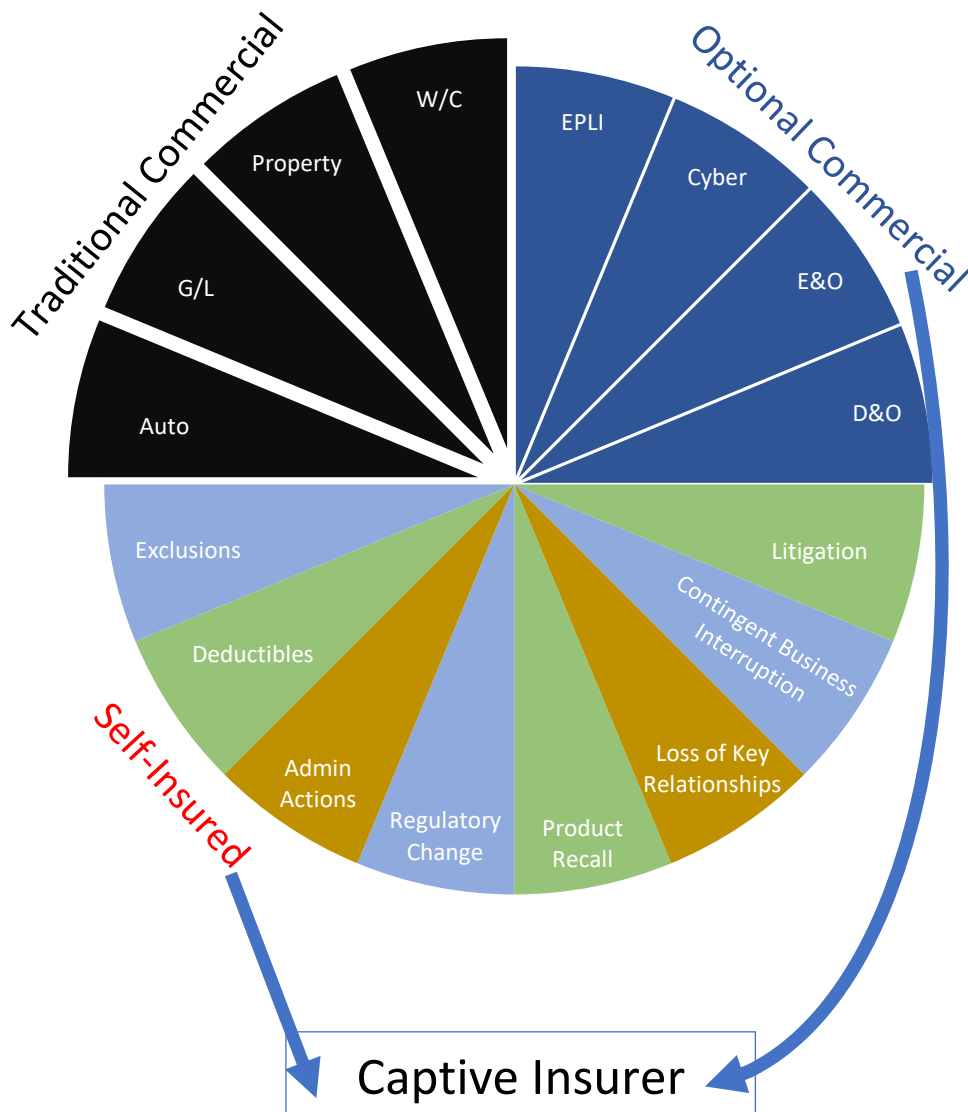
Captives Insure Real Risks



All businesses have risks which when they materialize can have a negative impact on that business. Business owners and risk managers should ask themselves:

- What are my risks?
- What risks do I want to *retain* (i.e. self-insure)?
- What risks do I want to *transfer*?
- To *whom* and in what *amounts* do I transfer risks?

A comprehensive risk management program will incorporate an ideal mix of risks that are either 1) insured via *commercial insurance* 2) insured by a *captive insurance company* or 3) *retained* and self-insured by the business.



QUICK FACTS

BASICS OF INSURABLE RISK

- Risk of Loss-Not Gain
- Fortuitous
- Operational and Hazardous
- Plausible

RISK FINANCING METHODS

- Commercial Insurance
- Captive Insurance
- Self-Insure

CAPTIVE RISK TRANSFER FUNDAMENTALS

- Risks identified
- Demonstrated Need
- Coverage descriptions clear
- Policy Terms Resemble Commercial Policy Language
- Qualified 3rd Party Actuarially Determined Premiums
- Appropriate Limits, Deductibles and Exclusions
- Reviewed and Priced Annually

CLAIMS

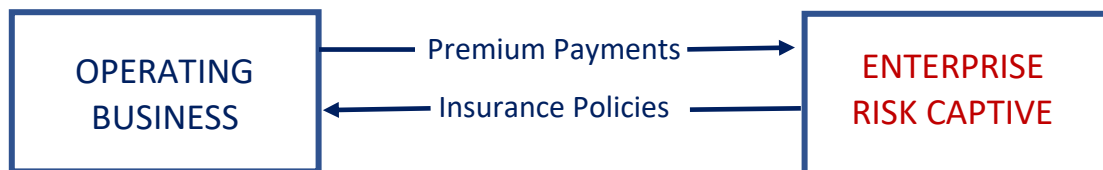
- Claims Policy
- Periodic Reviews
- Processed consistent with policy terms
- Timely Identified and Paid
- Appropriate Documentation and Support

Enterprise Risk Captive



An *Enterprise Risk Captive (ERC)* is an ideal structure for owners of middle market companies. An ERC is a property & casualty insurance company *formed by the operating business owners to ensure risks that are specific and unique to their operating business* — a formalized form of self-insurance. The ERC takes the 831b election to receive specific benefits.

- * *Manage risks* generally not addressed by the commercial market
- * Insure low frequency high severity risks
- * *Underwriting profits are exempt to tax* when annual premiums are less than *\$2.4 million* per year (indexed for inflation)
- * *Taxed only on investment earnings*
- * Creating a *pre-tax contingency pool* of assets to enhance the operating business' financial position



SAMPLE OF RISKS COVERED

Reputational and Cyber
Administrative Actions
Loss of Key Client, Accounts
Litigation Expense Reimbursement
Contingent Business Interruption
Directors and Officers
High Deductibles

INDUSTRIES INCLUDE

Manufacturing
Contractors
Distribution
Professional Services
Transportation

BENEFITS

- Tax efficient buildup of risk \$\$\$
- Improved risk management
- Customized coverage for hidden risks and risks that are difficult to insure
- Reduce and stabilize commercial premiums
- Access to Reinsurance
- Enhanced cash flow
- Customized ownership opportunities