

CAPTIVE
INNOVATIONS
Thinking Differently

2023

What Now?

Captive Utilization & Equity Efficiencies

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Session Description

This session will highlight the various ways captive owners are maximizing the utilization of their captive by accessing the accumulated equity within their company. Key points of discussion will include when and how to access captive equity, approaching tax and or accounting considerations for a profit distribution, regulatory considerations, and overall education around the benefits and considerations captive owners should identify.

Learner Objectives

At the end of this session you will be able to:

- ✓ Understand the numerous ways a captive's equity can be utilized to reduce financial and operations stressors of its parent company.
- ✓ Recognize the various benefits and considerations of tapping to captive equity from a financial, operational and strategic perspective.
- ✓ Draw conclusions after hearing about first hand experiences from a captive owner, actuary, and captive manager to better position your captive for future success.

Agenda

From the Beginning – the Captive Business Plan

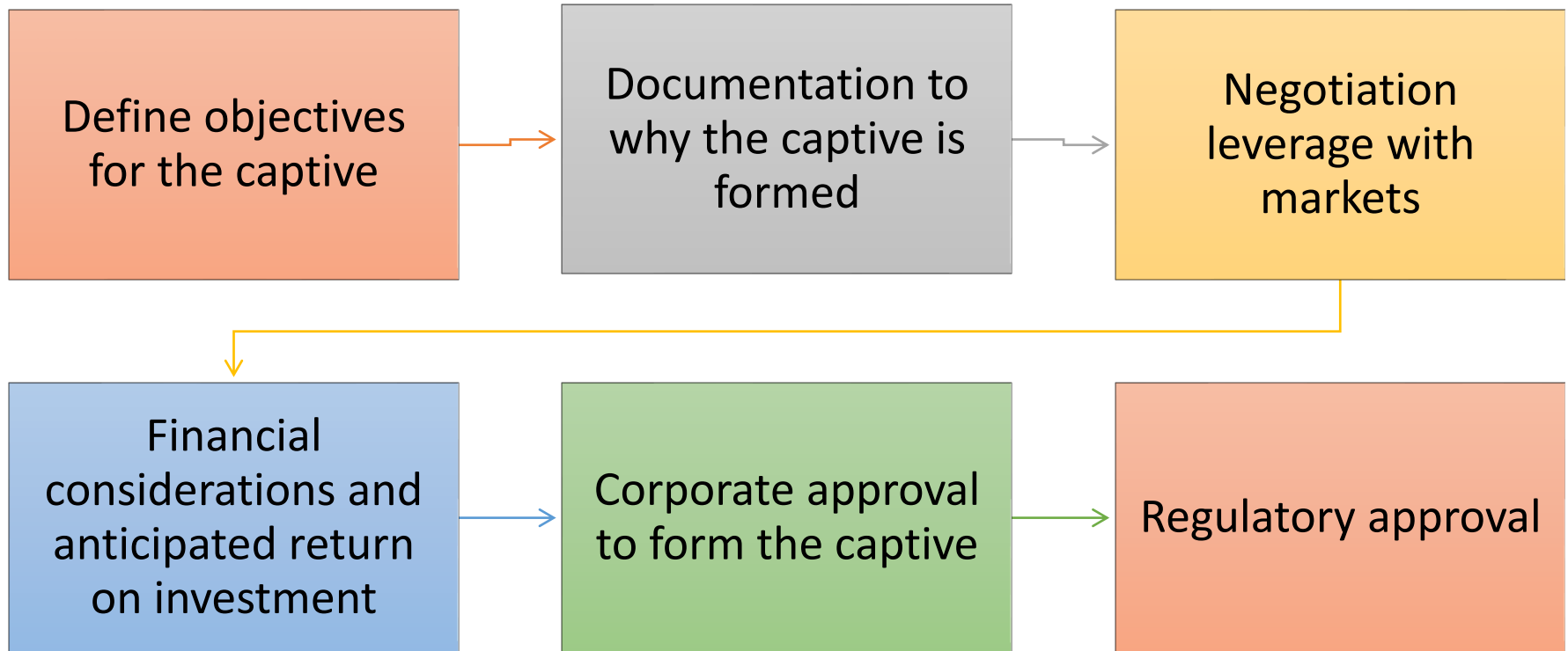
Maximizing Captive Utilization – Business Plan Change Strategy

Actuarial Support

Case Study: Mortenson

Questions

The Captive Business Plan



Revisiting Captive Goals & Objectives



Financial

- Provide potential short- and long-term total cost savings
- Capitalize on a company's better than average loss experience
- **Capture investment returns and underwriting profits traditionally reserved for the market**
- Remove traditional insurer's profit loading



Control

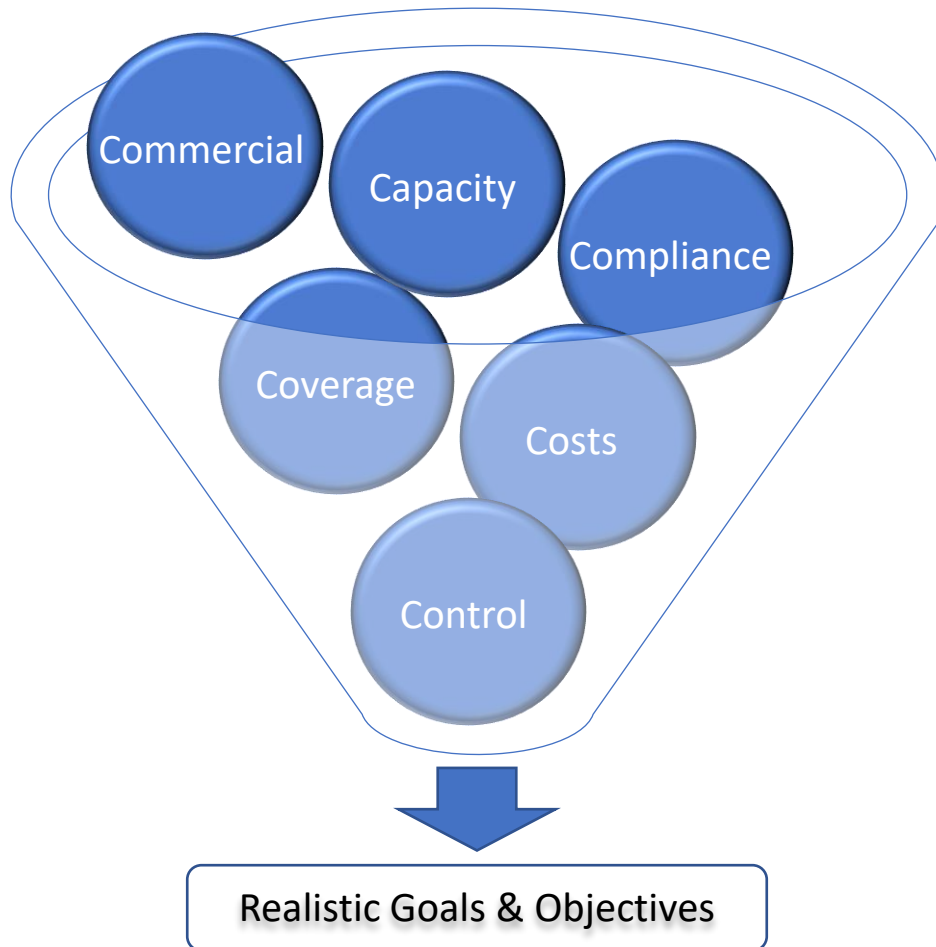
- Position the organization to manage premium volatility from year-to-year
- **Direct ability to reduce costs over time by controlling losses**
- Command a "seat at the table" pertaining to claims handling and loss control.
- Increased negotiation power with the market



Flexibility

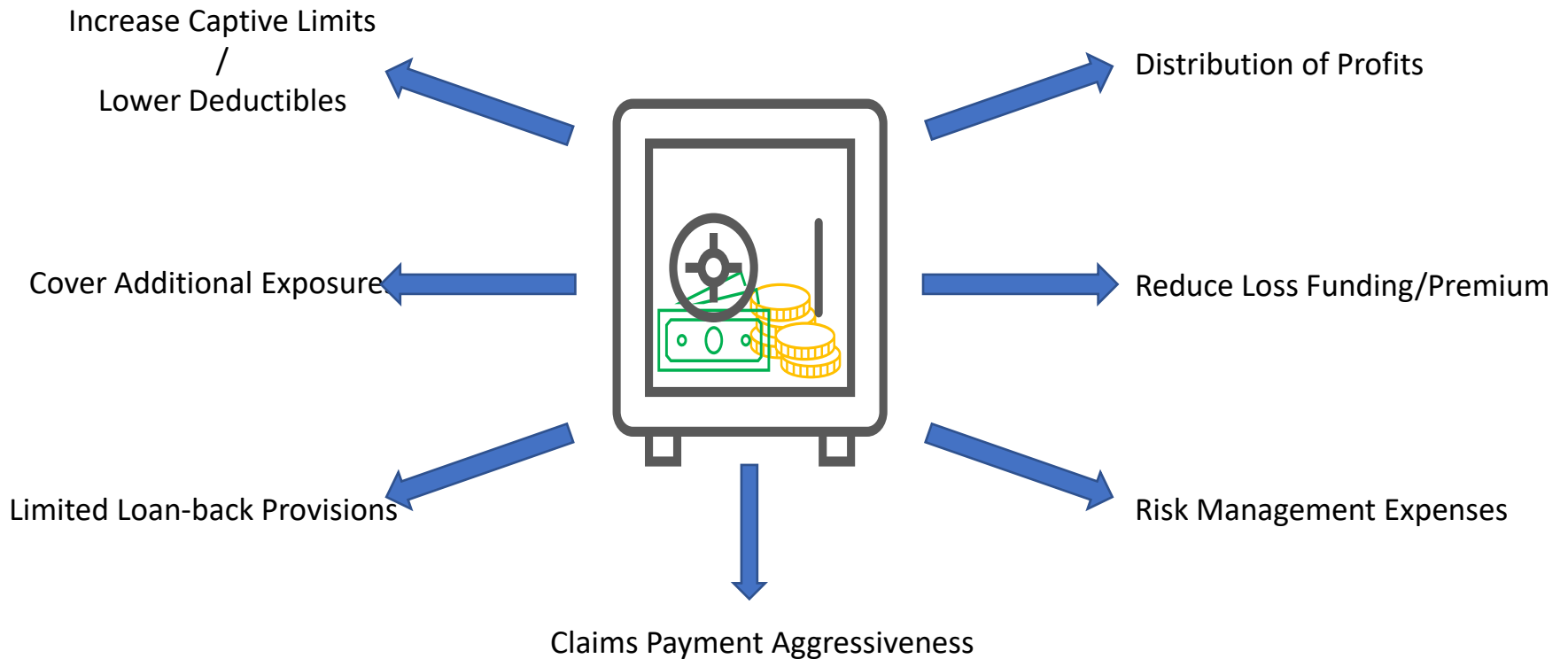
- **Ability to craft coverages to meet specific organizational needs**
- Create access to options for customized value-added services
- Insulation from market conditions
- Address organizational requirements, not the insurance market

Captive Utilization Strategy

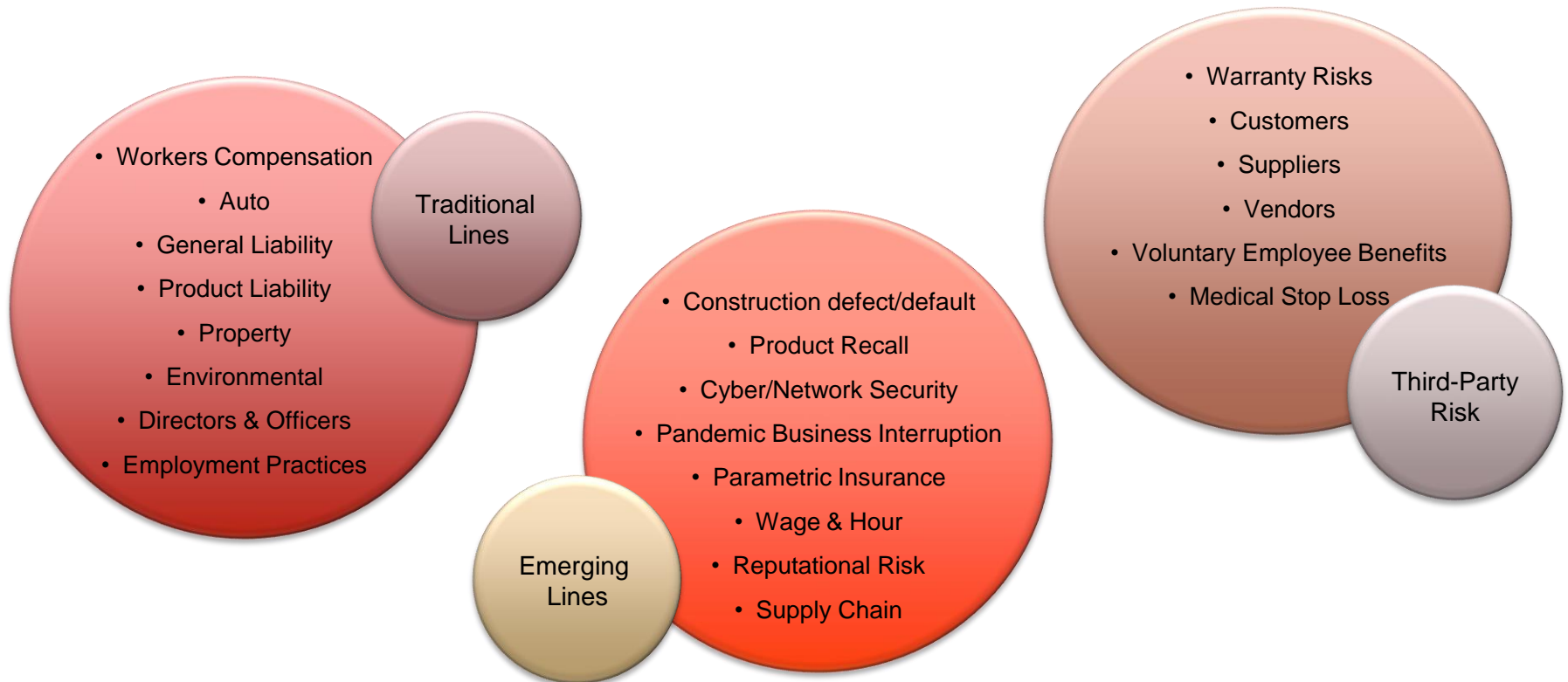


- *“If you don’t know where you’ve come from, you don’t know where you’re going”.*
- Have a 5 – 10 year plan for the captive.
- Set Board-level benchmarks for important financial decisions:
 - Profit distributions
 - Investment guidelines
 - Regulatory ratios
- Routinely evaluate the “suitability for purpose”, and make changes accordingly.
- Know the exit strategies.

“It’s My Money, and I Want it Now”



Trending Exposures



Process of Business Plan Changes

Review
Current
Insurance
Program
and Risk
Appetite

Assess
Capital &
Surplus in
Captive

Actuarial
Analysis

Review and
Decision to
proceed with
Business
Plan Change

Request
formal
approval
from
Regulators

Commence
with Changes
to Captive

Process of Business Plan Changes

When to consider a business plan change:

- ✓ A change in operations or risk tolerance of the parent/shareholder(s)
- ✓ Market volatility
- ✓ Excess surplus / “unencumbered capital”
- ✓ New, emerging or problematic risks
- ✓ Targeted loss control initiatives

When NOT to consider a business plan change:

- ! Minimum capital and/or surplus concerns
- ! Adverse loss development or reserves
- ! “Common notions of insurance”
 - Arms Length Premium Transactions
 - Insurance Risk vs Business Risk
- ! Wealth Transfer or Estate Planning
- ! Competing cost of capital
- ! Commercial market timing

Actuarial Support

- Pricing
 - Gather relevant loss and exposure information
 - Client experience
 - Insurance Industry
 - Develop Loss Forecast / Rate
 - By Coverage
 - By Limit

Actuarial Support

- Pro forma Financial Projections
 - Required by domicile?
 - Assumptions
 - Growth
 - Expenses
 - Scenarios (expected, adverse)
 - Impact to Capital / Financial Solvency Ratios?

Mortenson

LET'S REDEFINE POSSIBLE®

FAMILY-OWNED FIRM

69 YEARS
STRONG



REGIONAL OFFICE LOCATIONS

**TOP
25**

BUILDER IN THE
UNITED STATES

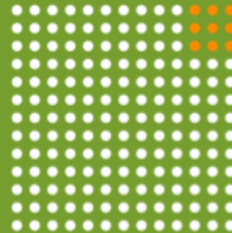
#22 IN
2023

ENR Top 400 Contractors
every year since 1969



34

BEST WORKPLACE
AWARDS in the last 5 years



5,000+
TEAM MEMBERS

\$4.9_B

IN ANNUAL REVENUE

Mortenson

▶▶ WE ARE BUILDERS AT HEART

INSPIRING SPACES



CLEAN ENERGY



RELIABLE INFRASTRUCTURE



PRODUCTIVE ENVIRONMENTS



Mortenson Captives

- **Hoku-pa'a 156 Insurance Company, Inc.**
 - Formed 2005
 - Deductible buy-back policies
 - WC, GL, Auto, Professional, Pollution, Cyber
- **NorthStar Insurance Company, Inc.**
 - Formed 2015
 - Subcontractor Default Insurance (SDI)
- **Captive Utilization and Equity Efficiencies**
 - New/Challenged Coverages : Cyber; Property & Builder's Risk; CCIP
 - Increased Retentions
 - Alternative Investments : Campus Refinancing program
 - Risk Management Investments : MVR; Safety; Quality
 - Feasibility Studies : Medical Stop-Loss

Questions?

Mahalo.
This concludes our presentation.

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