

**CAPTIVE**  
**INNOVATIONS**  
*Thinking Differently*

2023

# Turn Your Captive Into a Profit Center and Gain Potential Tax Benefits

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Captive insurance companies are facing challenges imposed by the I.R.S. and need unimpeachable third-party premium volume that meets all federal criteria to achieve favorable tax status.

A panel of experts explains how captive insurance companies can gain *profitable third-party premium, diversification, and potential tax advantages* by reinsuring coverage for employees, tenants, customers, vendors, and contractors. Other sources of third-party premiums include clients, association members, alumni, and student populations.

**INDUSTRY RECOGNITION  
AWARD-WINNING SOLUTIONS**

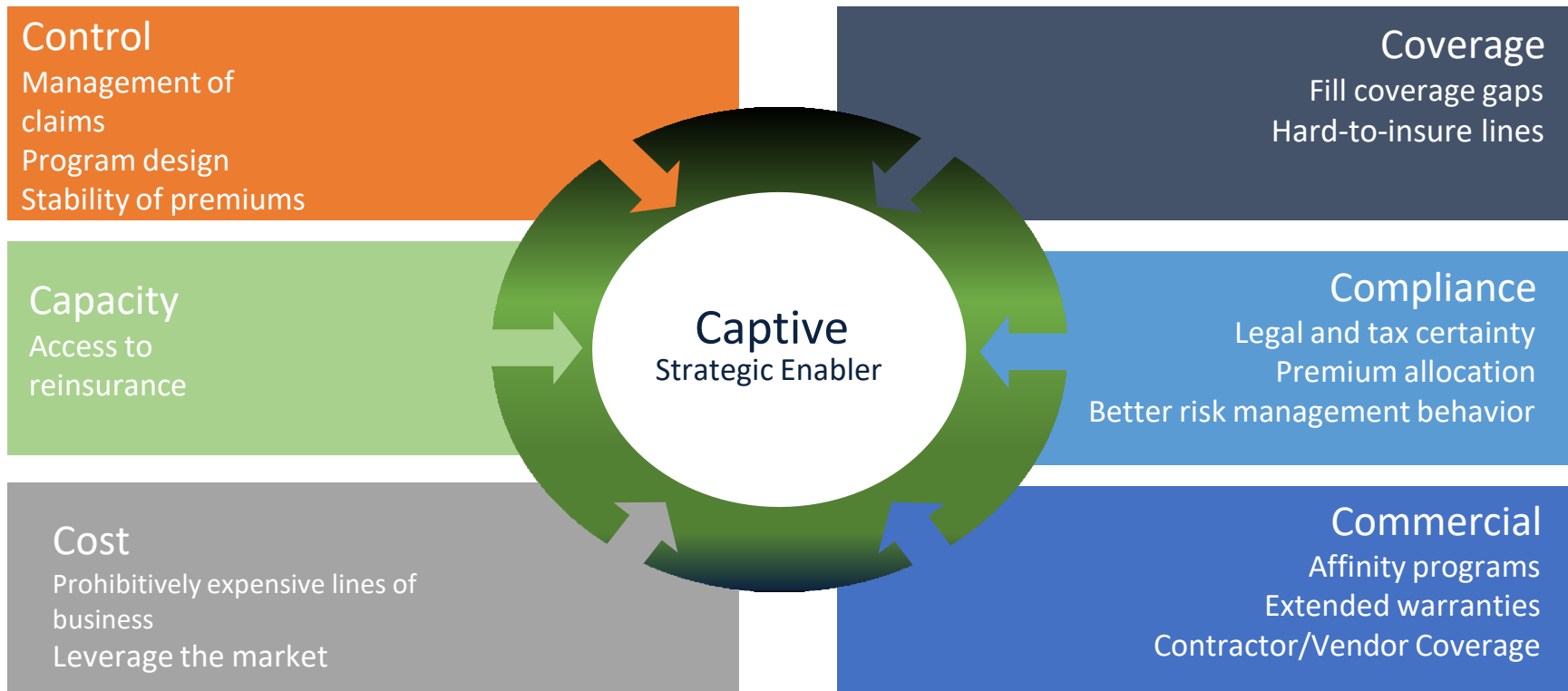


**2023 Business Insurance Innovation Award – July 2023**



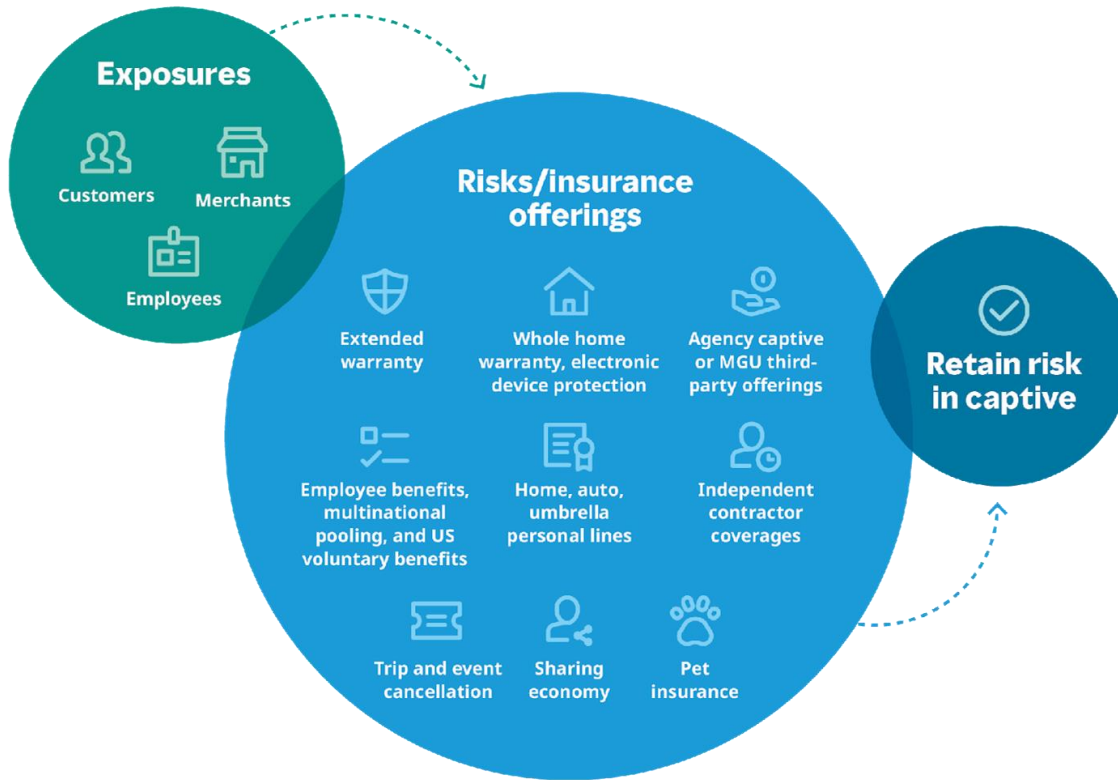
**September 2023 Cover Story,  
Captive Insurance Times**

# Why are Captives Typically Formed?



WHAT IS MISSING?

# 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%.

## THE OPPORTUNITY IS HUGE!

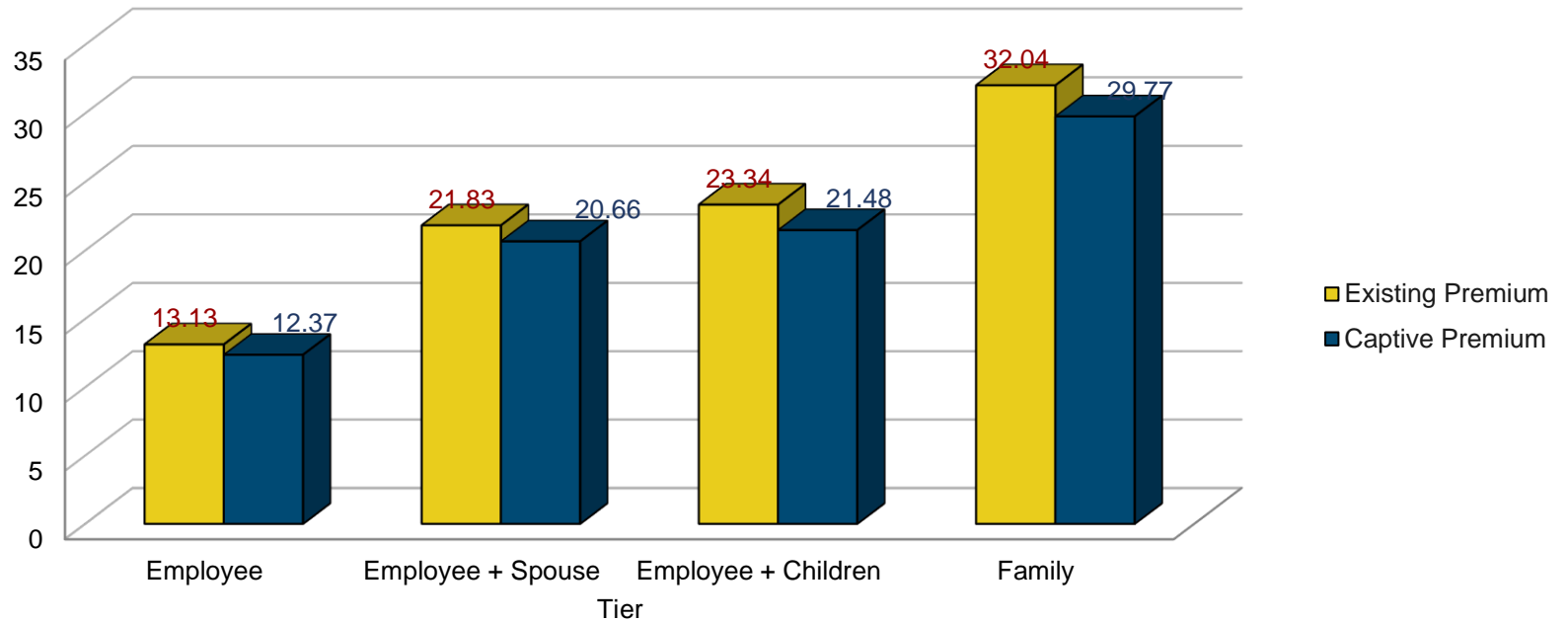
- ❖ Premium for voluntary employee benefits was **\$11.5B in 2021**
  - **96% of companies** with over 500 employees currently **offer voluntary benefits**
- ❖ **60% of smartphone users** have purchased protection plans
- ❖ **45% of all adults** subscribe to an ID Theft Coverage service
- ❖ **750,000 franchisees** in the U.S.
- ❖ **19,750,00** university students
- ❖ **114.4 million renters**, 35% of the U.S. population in 2021
- ❖ **92,000** trade and professional **associations**

# 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

# LOWER PREMIUMS EXAMPLE

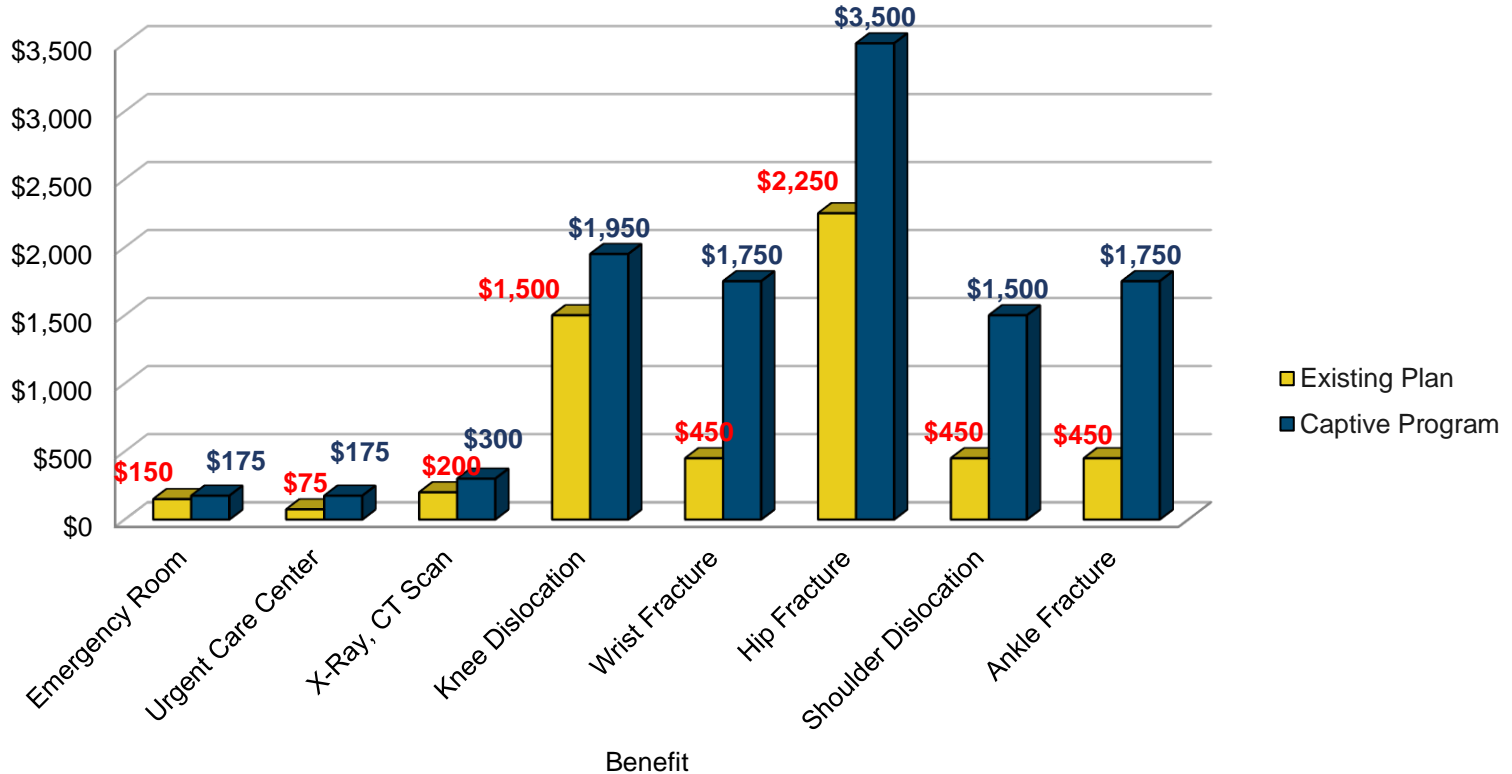
Existing and Captive Premiums





# INCREASED COVERAGE EXAMPLE

Existing Plan and Captive Program



# CREATE UNIQUE PROGRAMS



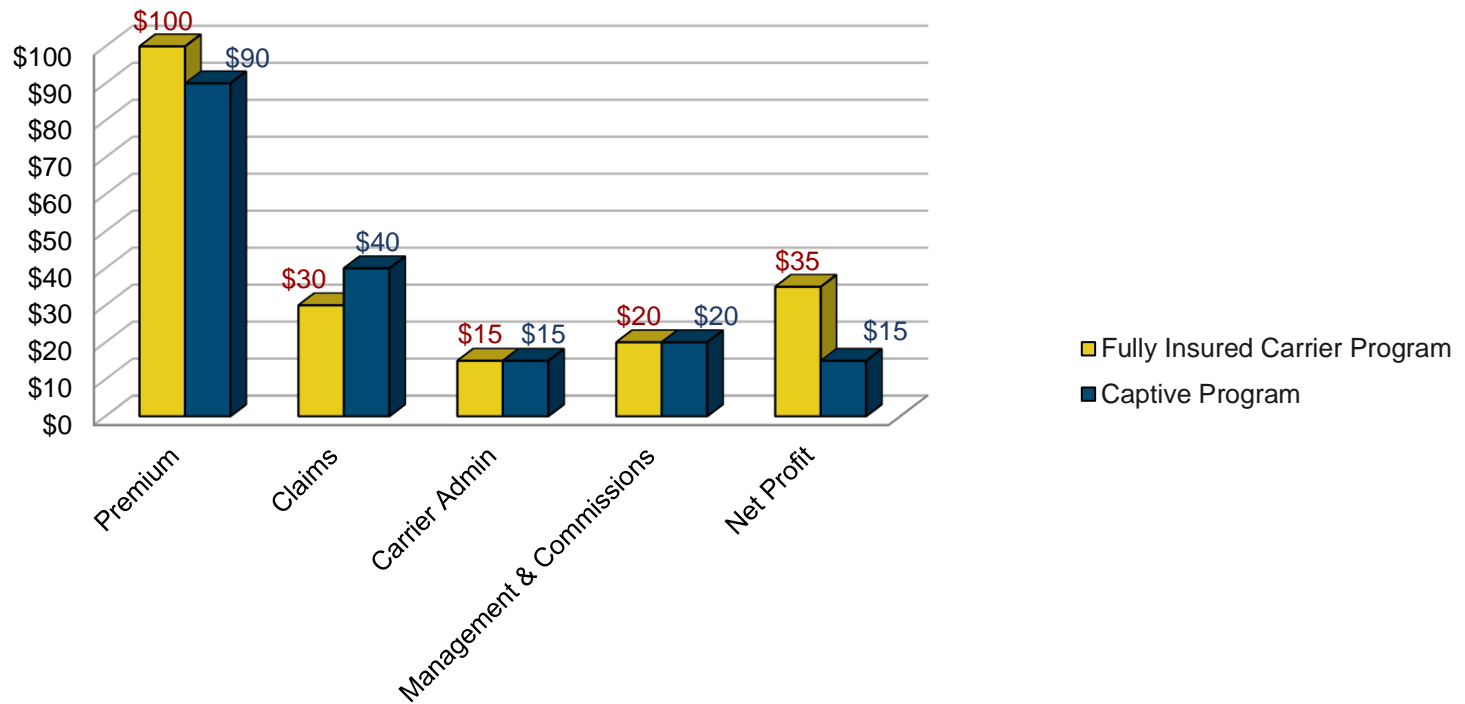
- The only bundled offering that **includes cell phones**
- Covers ALL listed devices, with **no limit on the number of devices**
- **Accidental damage**, drops, water damage, power surges
- Covers all makes and models – **new or used**
- **Repair or replacement** cost for electronics up to three years old (actual cash value after three years)
- **Worldwide coverage**

Tier	Annual Policy Limit	Per Occurrence Limit	Deductible	Monthly Premium
<b>Gold Plan</b>	\$1,500	\$750	\$75.00	Less than \$20.00
<b>Platinum Plan</b>	\$3,000	\$1,500	\$75.00	Less than \$30.00

**Every device in the household is covered for under \$20 a month!**

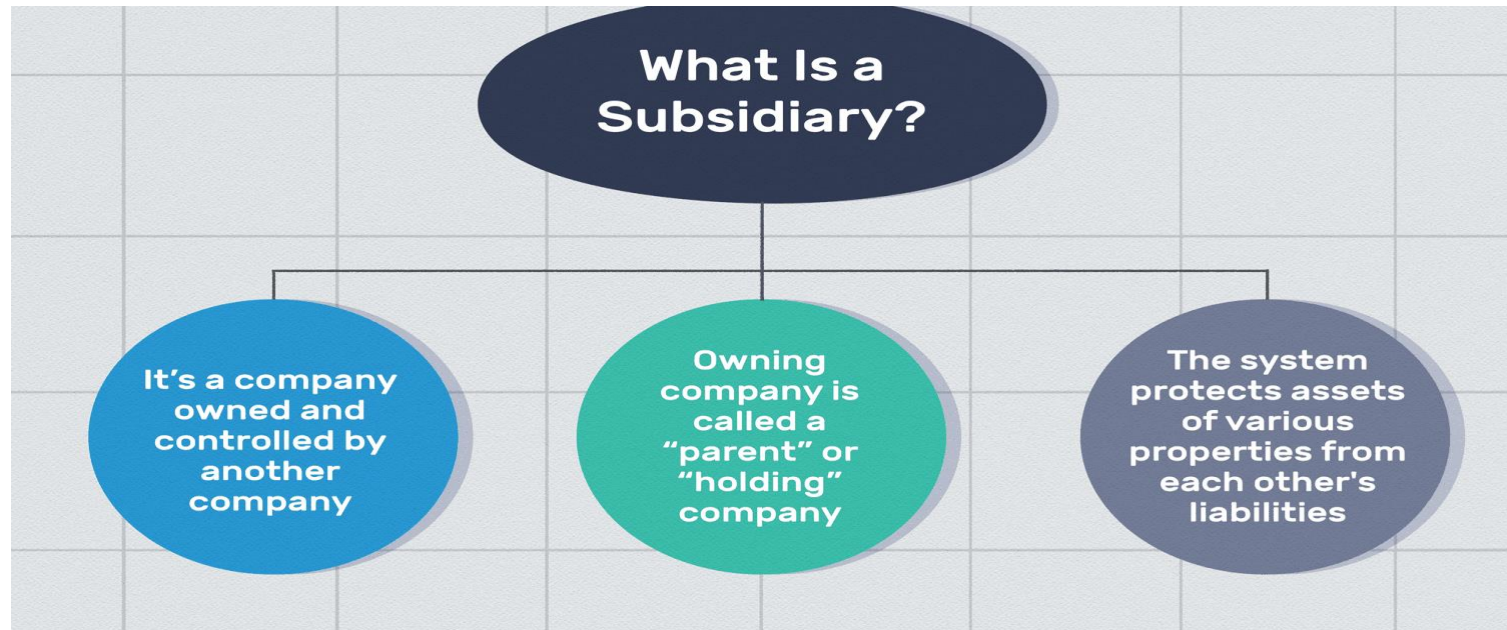
# FINANCIAL EXAMPLE

## Fully Insured Carrier Program vs. Captive Program



# Subsidiaries

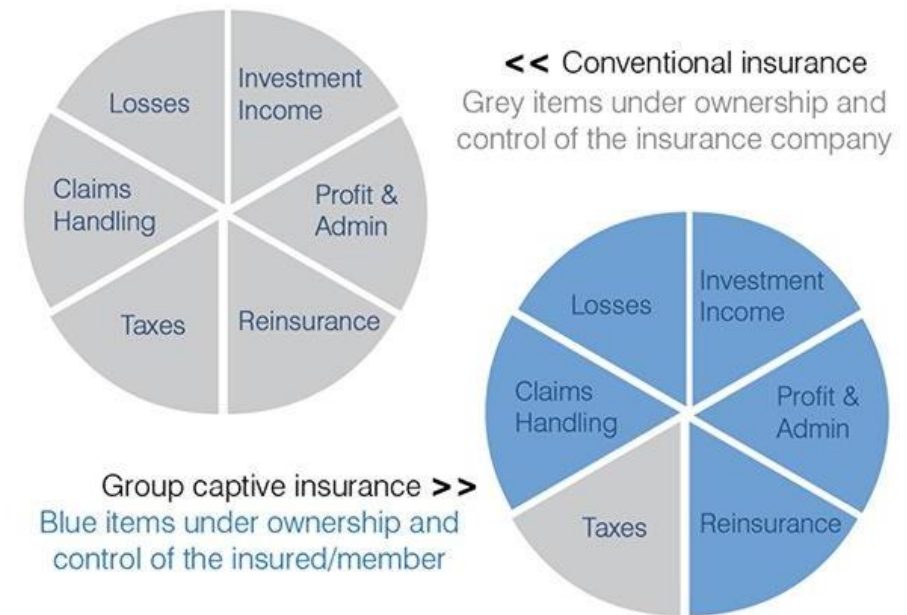
- Coverage for a brother/sister company
  - Must have true risk transfer
  - Must have their own financial reporting
  - May not have a guarantee from the parent



# Pooling

- A group captive is an arrangement where organizations share risk.
  - The group captives are wholly owned and controlled by the member companies.
  - The group captives only insure the member companies that own the captive.
    - Homogeneous group
    - Heterogeneous group
    - Homogeneous risk
    - Heterogeneous risk
    - Common underwriting methodology
    - Pooling manager
    - Potential for loss or gain
- Higher frequency, lower severity lines typically work well for group captives.

**Figure 1: Conventional vs group captive cost elements**



# Employees

- Employee benefits
  - ERISA benefits
    - Health and welfare benefits
    - Life, Disability, Supplemental health, vision, dental, Legal
- 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



# 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



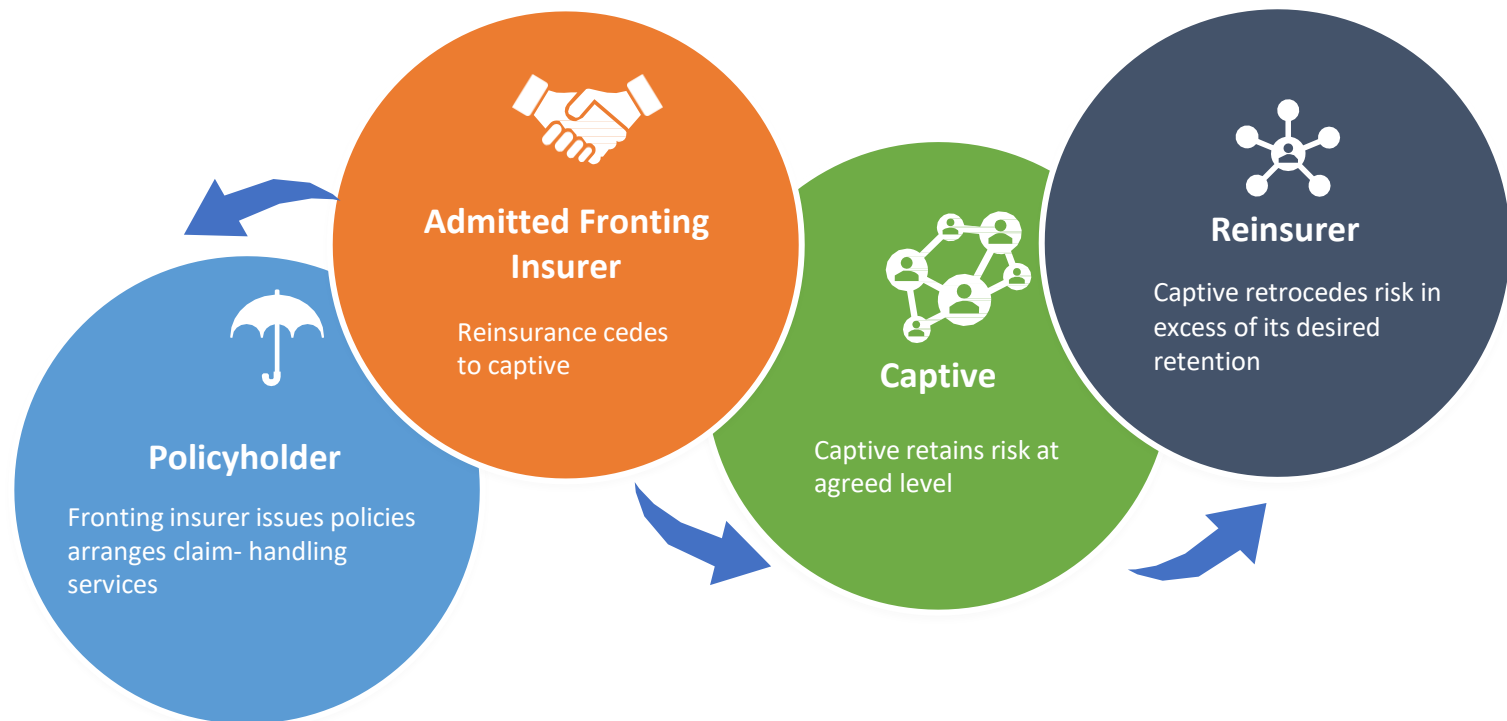
# DO YOU NEED A FRONT?

## Do You Need a Front

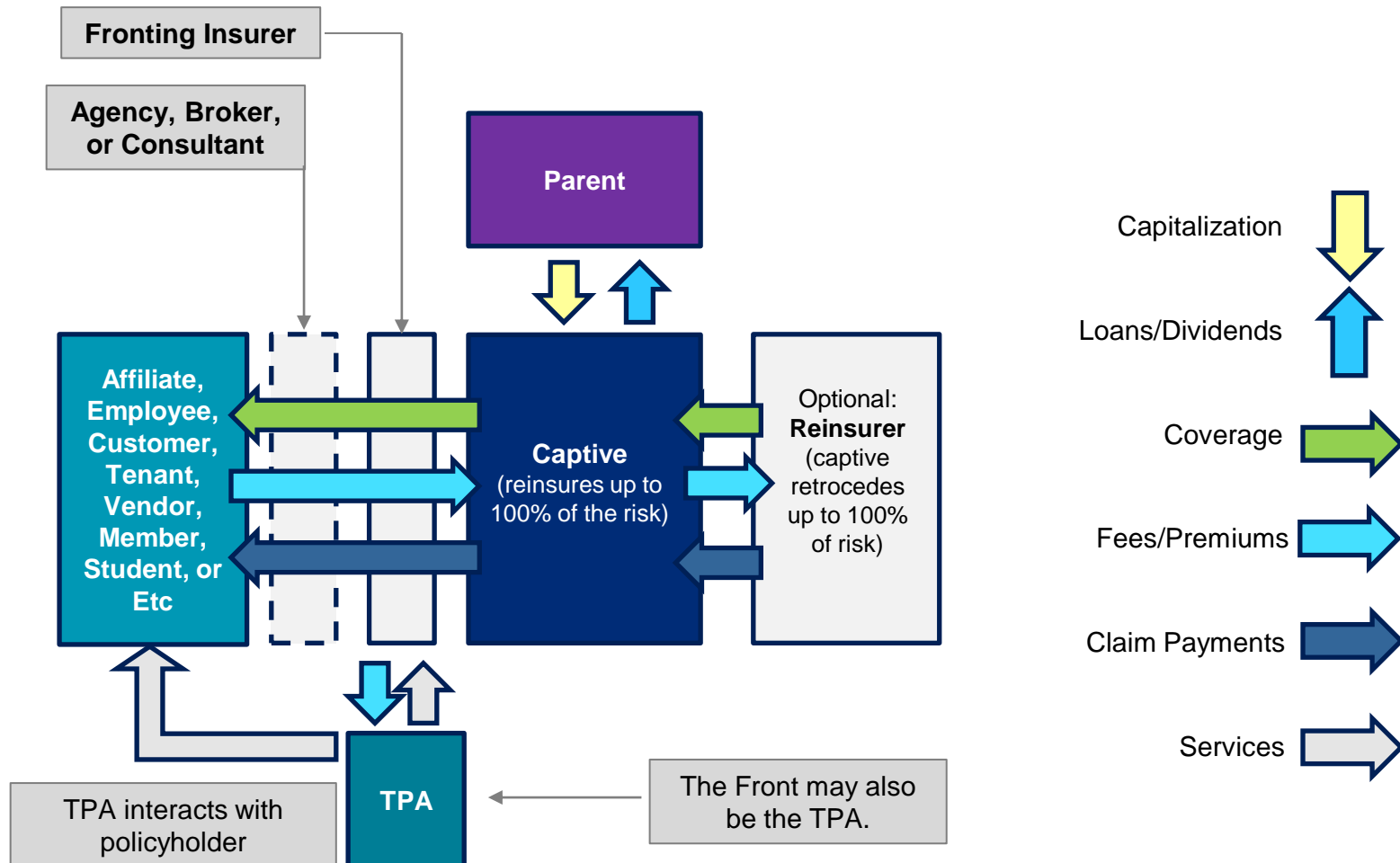
- Statutory requirement
  - Admitted VS Non-Admitted
- Loan covenants
- Bond covenants
- Contractually
- Compliance



# Fronted Reinsurance Overview



# Fronted Detail Model



## Example of a Large University

### How does the captive play a role in this program?

- Reserves secured via funds withheld
- Over \$10M of premium and over \$2.5M in surplus added to UC Captive
- Cost savings of over \$16M annually to UC and almost \$9M to the employees
- Captive buys the product wholesale vs. employees buy retail

Risk Management/Captive	Finance	Human Resources	Employees
<ul style="list-style-type: none"> <li>• Adds diversification and third party premium to captive</li> <li>• High predictability</li> <li>• Low volatility</li> <li>• No catastrophic loss potential</li> <li>• End to end solution not available from other captive managers: admin, legal, distribution, reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces Core Medical, WC, and Disability claims</li> <li>• Increases participation in the HDHP</li> <li>• Provides additional profit and cash flow</li> <li>• Potential tax benefits</li> <li>• No expensive and lengthy DOL exemption process to participate</li> </ul>	<ul style="list-style-type: none"> <li>• Leading edge benefits only available through a captive</li> <li>• Personalized, enhanced benefit programs at no cost to the company</li> <li>• Funding source for employee programs</li> <li>• True partnership with carrier</li> <li>• HR is a key business partner</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits not available in the marketplace</li> <li>• Increased coverage including wellness benefits</li> <li>• Reduced costs</li> <li>• Improves financial security</li> <li>• Improved understanding of coverage</li> <li>• Greater employee satisfaction with overall benefits package</li> </ul>

## Example of a Large Landlord

- 1,000's of rental units
  - 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
- Market differentiator
- Increased stakeholder satisfaction and retention



# Holman Enterprises

## Holman AUTOMOTIVE

- 39 dealership franchises
- 19 brands / 36 locations
- 60,000+ units sold annually
- 3,000 employees



- Global fleet management
- 2 million vehicles
- 2,300 employees
- "Cradle to grave" services



- Fabrication and assembly
- 11 US locations / 1 in CA
- Up-fitting specialists
- 1,000 employees

## Holman — PARTS — DISTRIBUTION

- Ford, GM and Chrysler
- Powertrain and parts distribution
- 11 locations / 125 employees

## Holman STRATEGIC VENTURES

- Develops and invests in technologies & partnerships within the automotive industry
- 35 employees



- Commercial and consumer
- Heavy focus on organic growth
- 40 employees



# Holman – Evolution of Risk Taking

## Third Party Risk

Fleet Physical Damage

Fleet Commercial Automobile (QS Participation)

Reviewing

Electronic Coverage

Legal Prepaid

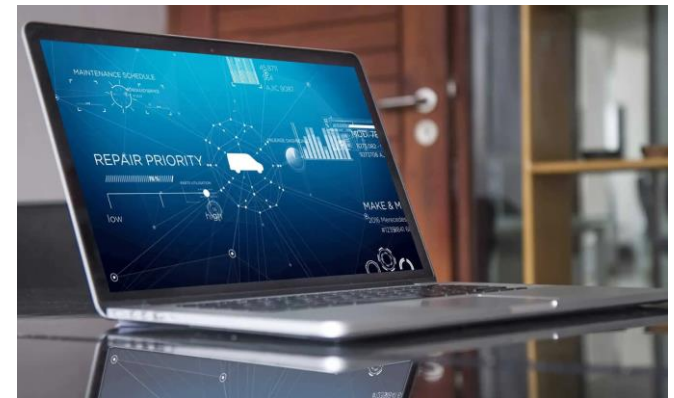
ID Theft

Voluntary Medical (1/1/25)



# Holman Program Overview

- a) Holman used a cell in Picasso to initially “get its feet wet”
- b) Ability to segregate programs important as different partners & different timelines for covers
- c) Leadenhall formed in 2016 which coincided with the creation of Holman Insurance and the acquisition of Risk Partners
- d) Created its own TN series LLC (Maple Shade) to utilize cells for customers of Risk Partners, ARI, and for segregating Holman risks



# Leadenhall Cell

## F&I Coverages

Gap  
Etch  
Tire  
Service Contracts

100% quota share through Virginia Surety Company, Inc.

# Nightingale Cell

## Employee Benefits (Originally included in Leadenhall Cell)

Stop Loss Medical

\$275k xs \$225k

Aggregate Stop Layer

Contingent Run Out Medical

Designed to stabilize and manage the cost of the retentions of affiliated Holman businesses.

# Greenbrier Cell

## Property and Casualty Coverage Risks

Wind deductible buy down: 2% TIV xs 3% TIV

Dealer open lot: \$2.5M xs \$2k

Dealer open lot quota share: \$7.5M xs \$2.5M (50% above \$2.5M SIR)

All other perils (wind/hail/flood): \$200k xs \$50k

# Holman Warranty Program

Fronted by Virginia Surety

114 Trust with TD Bank

38 Dealerships (NJ, PA, FL, KS, CO, WA, OR, CA)

Aston Martin, Audi, Bentley, BMW, Cadillac, Chevrolet, Ford,  
Honda, Infiniti, Land Rover, Lexus, Lincoln, Mini, Porsche,  
Rolls Royce, Toyota, Volkswagen



# Warranty – Do's and Don'ts

Embedded	Included in price
Service Contract	Dealer Obligor
Extended	Manufacturer
	Administrator Obligor

Embedded cannot be insurance. Must be optional

## Types

Automotive	Home	Appliances
Sports Goods	Medical Equip	Services
Electronics		



# Regulation

Automotive - varies by state and by obligor

Home – also regulated and varies (2yr, 10yr)

Warranty Companies can be given insurance company treatment even though they are not licensed as an insurance company

Fronted, Direct, Risk Retention Groups – when to use?

Risk Retention failures

HOW, National Warranty, Capital Assurance

PORC's and 831B election





# RISK ASSESSMENT

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



# Thank You for Attending!

Enhance your relationships with employees, customers, members, students, alumni, or tenants.

**Minimal Effort & Risk**

**Profitable Third-party Premium**

**Low Risk**

**Diversification**



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