



CUTTING THROUGH THE MYSTERIES OF FINANCIAL REPORTING, WHAT EVERY GROUP CAPTIVE MEMBER SHOULD KNOW

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2018

WHO IS CAPTIVE RESOURCES?



CAPTIVERESOURCES.
Insurance, reimagined.

- Over 30 years of experience
- Administers 35 captive programs
- Represents over 4,300 shareholders
- Combined premiums exceeding \$2.3 billion
- Created and oversee the \$4.3 billion Captive Investors Fund (established in 1994)
- Sister company, Kensington Management Group, the largest independent captive manager in the Cayman Islands



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WHAT SHOULD A COMPANY BE CONSIDERING?

- **Prospect**
 - ✓ Understanding what a captive is
 - ✓ Reviewing all the benefits and risks
- **Captive Member**
 - ✓ Orientation and education
 - ✓ Buy-in from all levels of the organization
 - ✓ Getting involved and participating



PROSPECT

Demystifying Captives



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INSURANCE ALTERNATIVES

- Self-Insure (retain all losses)
- Conventional Market (transfer all risk)
- Risk Management (retain predictable losses)

Group captives are based on a *risk management* philosophy.



DEMYSTIFYING CAPTIVES

Evaluating the group captive option

- Initial capital requirements and on-going costs
- Impact of having ownership in the captive
- Understanding the offshore implications
- Who am I partnering and sharing risk with?
- What is my exposure?
- Will this make us a better company?



INSURANCE CAN BE A MANAGEABLE COST

- Premiums are based on actual loss experience
- Greater control of your insurance budget through premium stabilization
- Enhanced loss control and claims management efforts directly result in premium savings
- Insulated from market conditions and insurance cycles
- Operating costs are lower
- Return of unused loss funds and investment income



ABOUT THE FINANCIAL RISK

- Policies issued by nationally recognized 'A' rated carrier
 - Aggregate and Specific excess coverage protects the captive
 - Experience adjustment protects each member
 - Defined maximum cost for each policy period
 - Members subject to annual financial and risk reviews
 - Captive has Audited financial statements and is regulated by the Cayman Islands Monetary Authority
- **The captive is financially protected**



CAPTIVE MEMBER

Learning the Basics



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WHAT DO I DO?

- Having a captive insurance structure is a long-term commitment
- When in doubt where to begin.... call your insurance manager or consultant!
- Involve members of your company and external service providers:
 - Owners/Management Team
 - Risk Control Team
 - Accounting/Finance Team
 - External auditors and tax accountants



THE FINANCIAL QUESTIONS

- What are the cash commitments and the timing of those obligations?
- How do I record transactions associated with the captive?
- What captive information should I monitor and what do I do with it?
- How do I communicate all of this to my auditors and tax advisors?
- When could I start receiving dividend distributions?
- How do I earn investment returns and where are my dollars invested?
- How do I anticipate future costs and avoid surprises?



EDUCATION IS THE KEY TO SUCCESS

- Members of the captive should be well informed and feel confident in the decisions they are making.
- Understanding and knowledge of the captive helps build “buy in” and long-term commitment across an organization.



EDUCATION IS THE KEY TO SUCCESS

- Board meetings, including orientation sessions
 - Mentoring programs and talking with other captive members
 - Send employees to Risk Control and Financial workshops
 - Have your employees participate on relevant webinars
 - Utilize the countless resources available
 - Contact the insurance manager and captive consultant
- **Share internally all of the information and ideas**

WHAT DO I TELL MY ACCOUNTANTS?

- Purchase of stock ownership – **Investment / Asset**
- Insurance Premium/Assessments – **Ordinary Business Expense**
- Cash Collateral – **Asset** (generally restricted)
- Letter of Credit – **Footnote Disclosure** (if material)
- Equity / Dividends – **Do Not Record until declared**; IBNR reserves are not reported at the Member level. Equity will change over time.
- Provide all tax forms and information to your tax preparer
- Involve your external auditors from the beginning
- The captive insurance manager and consultant can help you!



HOW DOES THIS IMPACT MY LOSS PREVENTION / SAFETY / RISK MANAGEMENT TEAM?

Enhanced loss control and claims management efforts directly result in premium savings and help ensure a successful captive program.

- Funds for loss control consultants, providing proactive and preventative services
- Access to an online Claims management system, providing the technology and resources in managing losses
- Greater control and input to claims adjudication
- Risk Control workshops – send multiple employees
- Participate in relevant webinars
- Group purchasing program
- Vast library of resources and tools



CAPTIVE MEMBER

Next Steps



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ONGOING COMMITMENT

- Board meeting attendance
- Cultivate a strong risk management culture
 - Safety/loss prevention & claims management focus
 - Attend risk control workshops and webinars
- Financial obligations
 - Meet all of your captive obligations
 - Maintain financial strength of your own company
 - Involve your accounting personnel to help forecast future premium, potential assessments and collateral changes
- Help to grow the captive
 - Member referrals



LONG-TERM CONSIDERATIONS

- Have you leveraged the network of relationships in the captive for business improvement ideas?
- How has participation in the captive impacted over time your premium, claims costs, collateral requirements, maximum exposure?
- How do you hold the shares in the captive and do you have distributions flowing back to the right party? Company? Individual owners? Family trust?
- Are your accountants and tax advisors properly accounting for any captive distributions and tracking the tax basis of your stock ownership?



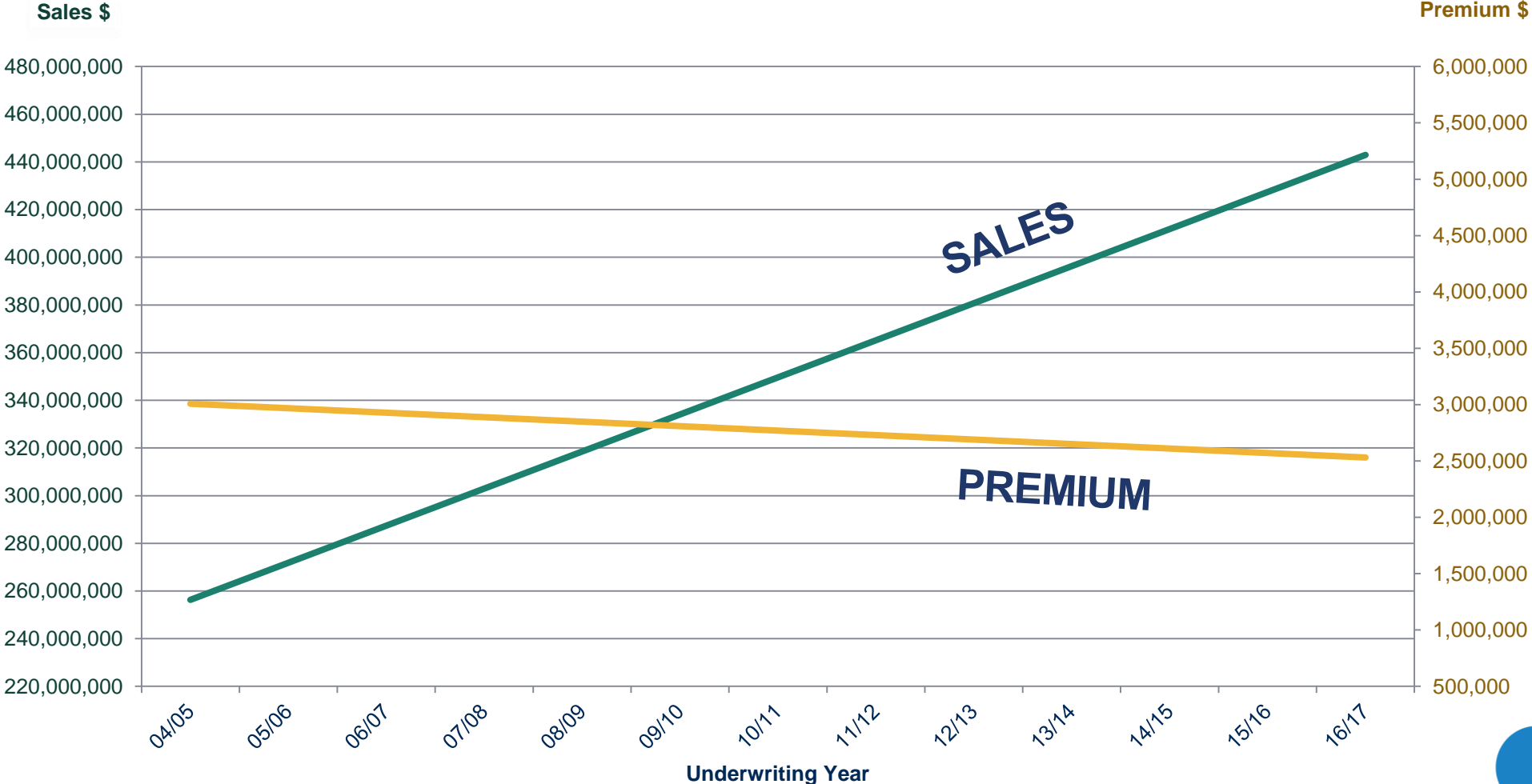
WHAT IS THE LONG-TERM GOAL

“Our company grew 20 times in 20 years and because our premium was set solely on our own losses, our premium was essentially the same through all of that growth.”

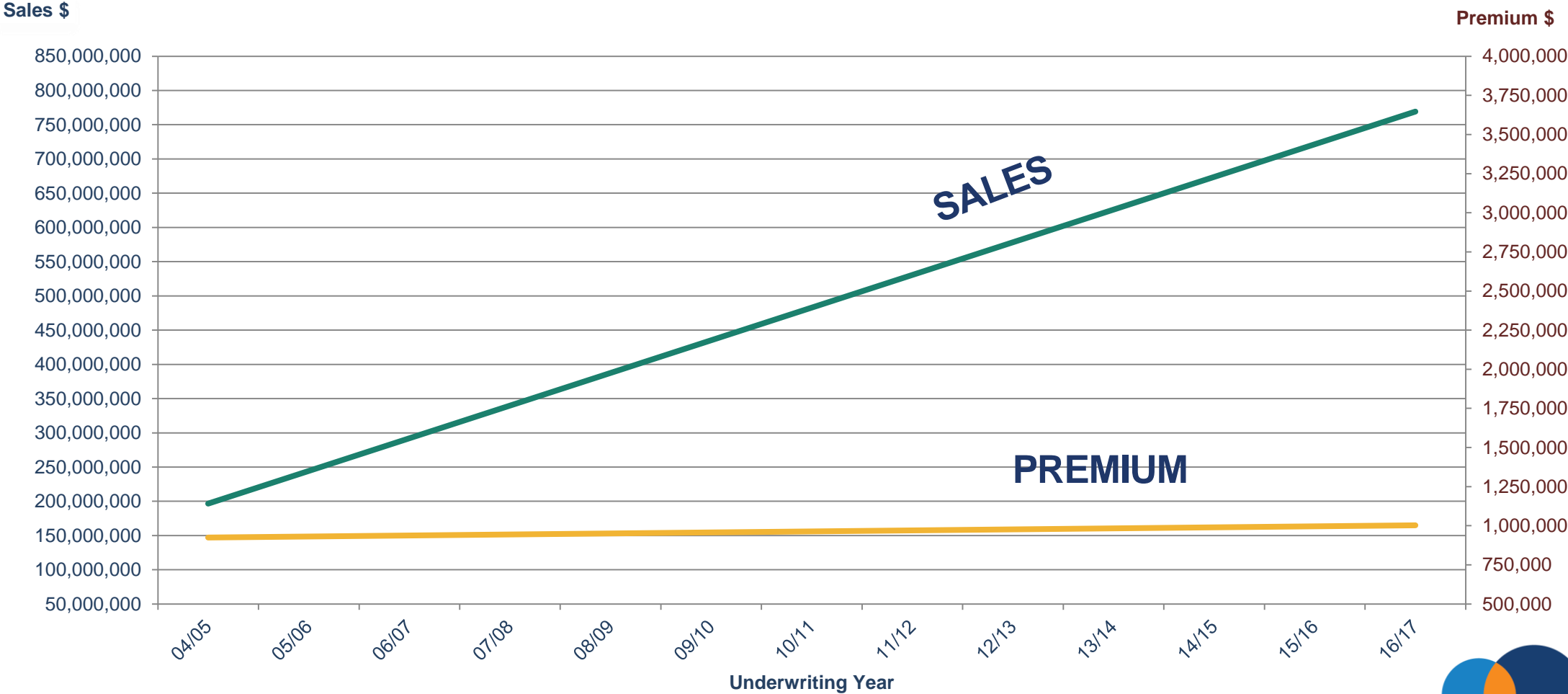
“...our 400+ associates, as well as their collective families, have lived lives that are quantifiably, much more safe and in turn, much more secure...”



SALES VS PREMIUMS MEMBER A



SALES VS PREMIUMS MEMBER B



“...the day I joined a Group Captive was the very last day I worried about an insurance renewal...instead I spend the time and energy on making our company better and safer.”



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THANK YOU



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