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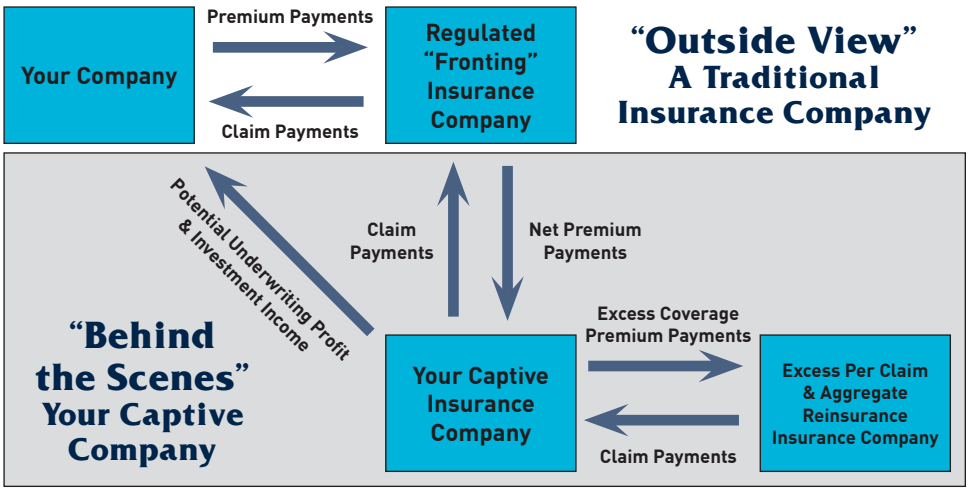


Is Captive Insurance Right For Your Company?

Learn how you can end the frustrating insurance purchasing cycle

What *is* a Captive?

How money flows in Captive Insurance Companies



Your captive is an insurance company. It receives premiums in exchange for providing coverage for the risks it insures, and it pays claims. But the biggest difference between a captive and an insurance company is that, although a traditional insurance company can insure individuals and businesses directly, a captive can only insure and transact business with the members of that captive or other insurance companies.

Your captive uses a licensed "fronting" insurance company to issue the policies on behalf of the captive. This is necessary as many insurance policies, such as auto liability and workers' compensation coverage, must be issued by a state licensed, regulated insurance company. Therefore, when looking from the outside, your captive insurance program acts and feels like a typical guaranteed cost insurance program. You will be purchasing a standard, guaranteed cost insurance policy from and pay premiums to a regulated insurance company.

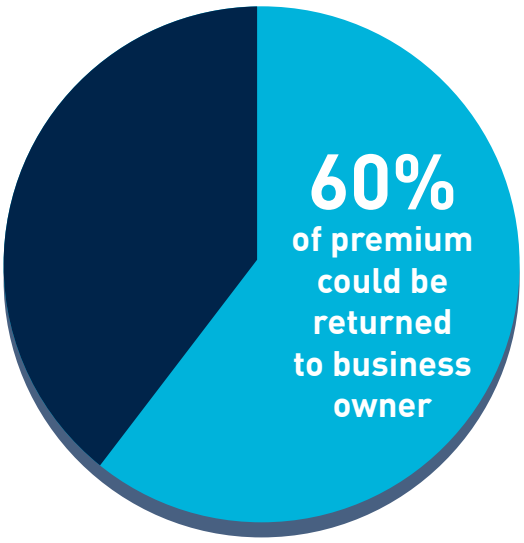
Your captive insurance company will act as a reinsurance company for your policies. Being behind the scenes, your captive will allow you, or a group of businesses, to selfinsure your business without the outside public knowing. Your captive will receive premiums from the "fronting" insurance company and pay for the claims covered by those policies.

Your captive does not take on unnecessary or unlimited risk. No business would take on risks that could cripple it financially. Your captive is no different. To improve the stability and profitability of your captive, your captive will insure only the smaller, more predictable claims and then buys its own reinsurance to cover the larger, unpredictable claims.

The goal of a captive is to return used premium (profits) to you rather than to insurance company shareholders. Your captive insurance company will manage and pay all of the claims for you or your group. After all expenses, including reinsurance and claims, are paid, if your captive takes in more money than it spends, it generates an underwriting profit. That profit is returned to you.

Your business' annual premium will be based on your own individual history, and not on the general, overall insurance industry filed rates. Your total premium will be comprised of an actuarially determined projected loss fund plus an amount necessary to cover your captive's expenses such as reinsurance, claims management, policy issuance and administrative fees. All costs will be clearly outlined in detail for you. The actuaries will also determine what your maximum out of pocket claim expense will be should your actual claims exceed your initial projected loss fund. This loss fund gap is the maximum you have at risk should you or your captive have an unexpected poor claims year.

About 60% of your premium could be returned to you based on your captive's results. With captives, about 40% of your premium is used to pay for administration of your captive, including the purchase of reinsurance for the larger, unpredictable claims. This allows approximately 60% of your premiums to be set aside into your loss fund to pay for your claims. In the end, any unused premium comes back to you rather than going to pay for other business' claims or to insurance company shareholders.



If you agree with any of these statements, maybe it's time to change to CAPTIVE INSURANCE



- The insurance companies take in more of your money than they pay out for claims on your behalf.
- Your premiums seem to always want to go up despite how safe our company is.
- Insurance companies don't seem to listen to you when it comes to paying your claims.
- You do not like to be blindsided by a large premium increase.
- There appears to be a lack of creativity when it comes to dealing with your business' risks.
- The insurance industry is not very transparent.
- Even after shopping your insurance, you have a feeling of being overcharged.

The PROS

Improved Cash Flow – any underwriting profit and investment income earned will be returned to you, no longer will your excess premiums go to pay for claims of companies less safe than you

Reduced Insurance Costs & Stabilized Insurance Budgets – your premium is based on your results and your efforts and focus on safety, and not on general, overall insurance industry rates, and market conditions

Transparency of all costs and improved program management – as an owner of your captive, you have a say in how your captive is managed and receive a clear account of where each dollar is spent

Choose and customize your coverage – based on your risk financing needs and feasibility studies.

Improved claims handling and reporting – you have more say in how claims are managed and settled.

Program Cost Certainty & Stability – your captives only pays for the smaller, more predictable claims, and then purchases reinsurance to cover large, unexpected claims.

The CONS

The Risk – based on your individual and captive results, if claims are greater than expected, it is possible you will have to pay a clearly defined additional premium subject to a maximum amount

Cash Flow – if your results from a particular year are poor and result in you having to pay in an additional amount for your claims, this amount will need to be paid to your captive over a period of a few years.

Risk Sharing – although each captive member is underwritten and shown to be safer than average companies, it is possible a portion of your loss fund will go to help other companies pay for an unexpected large claim.

Collateral – based on the amount that you may have to pay in due to higher than expected claims costs, you will have post collateral or a letter of credit to guarantee that this amount can be paid in the future.

Most Common Types of Captives

Single Parent Captive

The parent controls the captive to insure the parent company and its affiliates. It gives the parent company the ability to directly access the reinsurance market, as well as customize your insurance program, thereby reducing the costs of protecting your business while improving your insurance program.

Group Captive

A Group Captive entails joining with a group of other businesses that also have a significant focus on preventing and mitigating claims. As a group, that focus on safety can help reduce the overall rates of the member businesses.

You may be able to enter a group captive if you are paying over $100,000 in casualty premiums. Casualty premiums are premiums for your "liability" coverage, such as workers' compensation, general liability, and auto coverage.

Group Health Insurance Captive

A Group Captive entails joining with a group of other companies that also have passed underwriting to help achieve lower rates and possible return of underwriting profit to its members. In a group health insurance captive, you may be able to enter if you have over 20 employees insured for health insurance.

831(b) Captive

The Tax Reform Act of 1986 created the 831(b) section of the Internal Revenue Code, making it advantageous for small and mid-market companies to own their own insurance company and insure unique risks that are not able to be insured traditionally. The maximum annual premium of an 831(b) is $2.2 million annually and taxes are paid solely on investment income and not on any underwriting profit. It may also allow for the tax deductibility of premiums, as well as the proceeds/dividends of captives being taxed as a capital gain in lieu of ordinary income depending upon the captive's ownership, and should the captive meet the risk sharing and distribution requirements laid out in the IRS code.



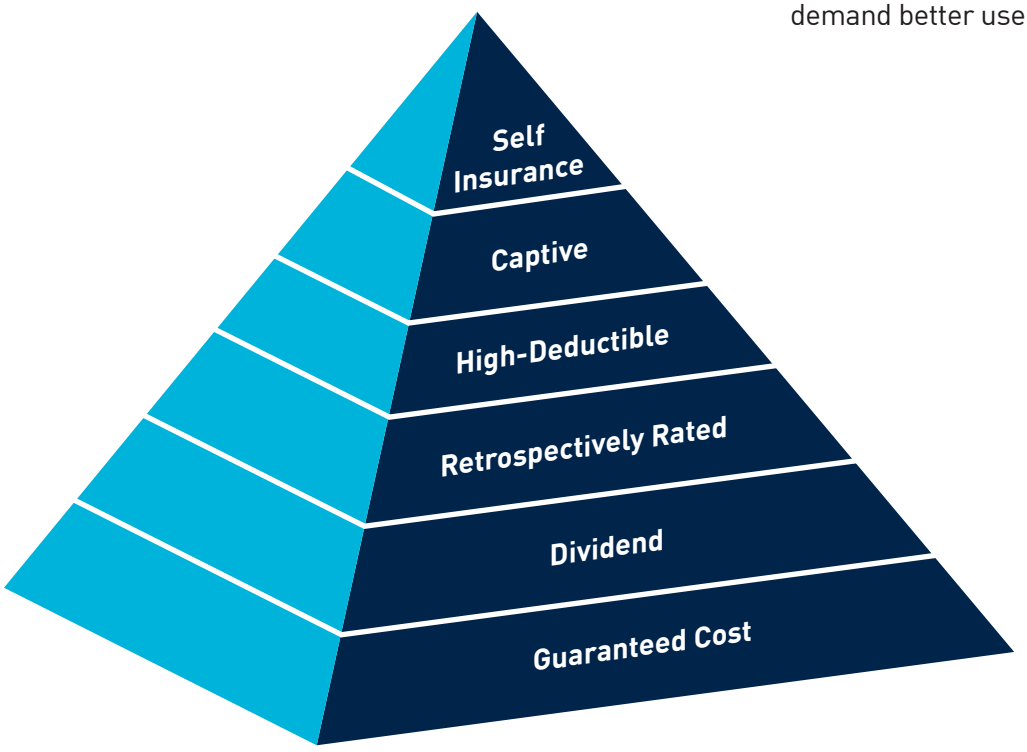
Why businesses are rapidly turning to the Captive Insurance Marketplace



When it comes to insurance costs, business owners feel they are "over promised and under delivered" every year by insurance agents. However, there is a better, more successful way to manage your insurance costs.

Through your strong focus on safety and your corporate culture, you have come to a point where you have become very attractive to insurance companies and they are offering you *their* best premiums. But in the end, ***their premium is still too much.***

If you are paying over $100,000 annually in workers' compensation, general liability, and auto insurance premiums combined, or insuring more than 20 employees for health insurance, you can break this costly cycle and gain more control over your insurance costs.



Alternative risk financing is when a business does not purchase traditional guaranteed cost insurance policies, but instead purchases insurance where they take on some risk to get potential rewards. For clarification, there are more insurance premiums invested by businesses in the alternative risk financing market than you realize, with the use of Group Captives being the most popular of the alternative risk financing programs being used.

Captives are not a new concept. From around 1,000 captives that existed in 1980, there are now over 7,000 according to a September 2014 report by Conning Research & Consulting. In fact, there has been more than a 35% increase in captives in the past 10 years as business owners become more sophisticated and demand better use of their capital.

As a result, more and more businesses have turned to captives.

Insurance programs range from the highest cost for you to insure your risk down to the lowest cost. Ranking them in that order, starting with guaranteed cost as the costliest, we then move on to dividend, retrospectively-rated, high-deductible.

And, finally, the lowest-cost program, which is typically found with captives and self-insurance programs.

Is Joining a Group Captive Right For Me?

- Do I have a strong focus on employee safety and a great corporate culture?
- Am I a privately-held mid-market company with predictable risks?
- Do I pay over a $100,000 annually in workers' compensation, general liability and auto insurance combined premiums, or insure over 20 employees on my health insurance program?
- Am I entrepreneurial with a desire for control?
- Do I have a desire to have transparency in my insurance program, especially when it comes to knowing where my money goes?
- Is my business financially strong with a positive cash flow?
- Is my management team committed to safety, loss prevention, and proactive claims management?
- If I review my last five to 10 years of claims history, on average, are my total claims paid out less than 40% of the total premiums paid to insurance companies over a period of several years? (For this calculation, cap any claim over $100,000 at $100,000 when you calculate your claims to premiums ratio.)

If your answers are mostly YES, then...



How To Join a Captive



When considering a move to a group captive insurance program, the decision-making process is much different than when renewing your business insurance in the traditional market where price and service level are generally the driving factors. This is because a group captive program is a different method of purchasing insurance; one that also establishes a separate mechanism for growing and preserving financial assets outside of your existing business.

In addition to looking at the premium and claims payment history of a business, the captive manager will look at a number of other operational factors including:

- Length of ownership
- Financial strength
- North American Industry Classification System (NAICS) Code
- Your past claims history

The full analysis and qualification process can take two to six months. For this reason, it is not recommended that the evaluation of a group captive program be conducted in conjunction with a business' regular annual insurance renewal.

When determining the value and projected annual premi-um with a group captive program, it is important to understand that conventional bidding and negotiation of rates is not part of the process. Captives don't use the rates filed with regu-latory agencies but rather establish premiums developed by the actuarial "loss pick". These determinations use five years of claims, exposures and premium data to determine your premium and claims fund deposit needed to protect the oth-er members of the captive. These actuarial forecasts tend to be conservative (more expensive) in the early years of captive membership because, as most business owners are aware, insurance companies have differing claims reserves and pay-ment practices. As a business ages in a captive program the claims experience becomes more predictable because the claims reserving and payment strategy is set by the captive owners. This results in more significant cost savings and as-set growth over time.

The process of joining a captive will take between three weeks to two months depending on the complexity of the business considering the option and the workload of the captive management company.

Timeline to Enter Into a Captive

	Action Step	Duration	By Whom
1	Collect 5 years of claims and premium history	1-2 weeks	Business owner
2	Prepare pro-forma	2 days	Duncan Financial
3	Submit to the captive for actuarial review and approval	2 weeks – 2 months	Duncan Financial
4	Review captive memorandum and other documents	1-2 days	Business owner
5	Review the captive cost and premium calculation - ***Captive financials should be reviewed at this time***	2 hours	Presentation by Duncan Financial and captive manager
6	Purchase captive stock and make the first captive premium payment	Upon inception of the insurance coverage	Business owner
7	Post collateral in either cash or a letter of credit	Up to 30 days following the inception of coverage	Business owner

Duncan Captive Services

Your Single Destination for Captive Solutions



"Selling" you on using insurance captives is not what we want to do, as captives are not for everyone. Only businesses that understand and can benefit from using insurance captives should pursue using captives to finance their risks. Providing the guidance, tools, support, resources and education needed to help achieve success is the focus of the Duncan Financial Group.

In addition to guiding and supporting you through the entire captive process, Duncan provides initial and ongoing workshops and webinars on the types and structures of captive, how they work, how to gauge success, benchmarking results and key performance indicators, understanding captive financials, as well as keeping you abreast of current events that impact the captive insurance world. Having a deep understanding of the captive success factors and challenges you may face is key to improving your captive success.

Captive Discovery Services



Preliminary Feasibility Study

Although reducing insurance costs through the lower cost structures of captives is attractive to business owners, it is important for a business owner to know *if* a captive is the right option for them. We will perform an analysis of your safety and risk management practices, as well as a claims analysis, to determine if the time is right for you to look at a captive. We can also determine if a group or association insurance captive, or your own single parent captive, makes the most financial sense for you to pursue.

Preliminary Financial Analysis

Entering a captive can be financially advantageous, but there is an initial cost of starting your own captive, or entering a group captive. We will review those costs as well as assess the impact of the collateral requirements on your financial picture. This includes potential impacts on cash flow, loans, or lines of credits. Our accounting and CPA professionals can review your current financials, and financial situation, and help advise you in your decision, and even make recommendations to help structure your financials before submitting for captive review.

Preparation of Captive Submission

Qualifying for a captive and establishing your premiums and reinsurance costs requires a much more extensive compilation of data about your business, your operational and claims history, and financial picture. We will walk you through this process and help gather all of the required data; we will then compile it into formats that the captive managers will want so that they can analyze your submission to join their captive.

Captive Manager/Program Selection

With over 7,000 captives, over 1,000 captive managers, and hundreds of group captives, finding or creating the right captive program and choosing the right captive manager is important for both the protection and financial success of your business and your captive. In addition to our own captive domiciled facility and captive manager, we have access to dozens of captive programs and managers that can best meet your needs.

Consultation on Captive Ownership

Understanding who should own your captive can impact who has the financial responsibility and benefit of the captive, such as receiving dividends from the captive and their taxable impact. Understanding your goals, whether business, indi-vidual, or even your estate, will need to be considered when determining who should own your captive or captive shares. Our captive experts, and accounting and CPA professionals can advise you as you make this important decision.



Improving Captive Performance



Claims Advocacy

Ultimately, your claims will determine the success of your captive performance. Helping to minimize the cost of your claims will be crucial to reducing how much is paid out and increasing the profitability of your program. Our deep team of over a dozen seasoned claims professionals will be your advocate and work to make sure any claim is managed, settled, or even denied, in your best interest.

Safety & Risk Management

You already have a significant focus on safety and quality, otherwise you would probably not be interested in insurance captives. However, identifying risks in your business, and determining the best ways to reduce or eliminate those risks will help achieve greater captive success. Our team of over a dozen Certified Safety Professionals, Certified Risk Managers, and Certified WorkComp Advisors can help your team build and implement custom risk management programs to reduce your total cost of risk and improve your captive profitability.

Human Resources

The success of any business starts with its employees. Hiring, managing, training, and retaining the best employees are obviously critical. Our deep team of human resource specialists, including a human resources attorney, is there to support your team so they have the right information, make the right decisions, and implement the best programs.

Benchmarking Captive Performance

Just because you are in a captive, does not mean that you do not need to worry about how things are going, how things are performing. Assessing how well your captive is performing, especially in a group or association captive is critical. We will work with you to assess how well your captive cost structure is performing against the traditional marketplace, help you to understand and determine if there other members of your captive that are overly negatively affecting your results, and if the captive cost structure is appropriate.

Benchmarking Your Business' Performance

As the cost of your captive insurance program is directly affective by your claim costs, it is important to manage your captive, not by the end results (your claims) but by a complete matrix of criteria that are leading indicators of potential problems that could lead to claims. Criteria such as injury frequency, near misses, rejected product counts, turnover, peer observation reports, and out of service vehicles, are just a few of the leading indicators with point to potential larger issues. Our deep risk management and safety professionals will help you to build the matrix of criteria to benchmark yourself against, as well as structure the means to test and measure them.



Insurance Program Design

Even with insurance captives, you buy insurance to pay your unexpected claims. Since it's common for business owners to mix business assets, property, vehicles and investments with personal ones, oversights often occur under traditional insurance arrangements. In addition to our Risk Assessment helping you to become a safer, more productive and profitable company, the assessment provides us with unique insight into your operations, and both your business and personal world. Through our Coverage Analysis, we will make sure that your business and personal insurance protection meets your needs.



Captive Audits

If you are already in a single parent captive, or group or association captive, we can perform a deep analysis of your captive and your overall safety performance. Using benchmarks, we can help you determine if the captive is actually benefiting you or not, and if there are other factors that need to be addressed to help you to improve your insurance captive performance.

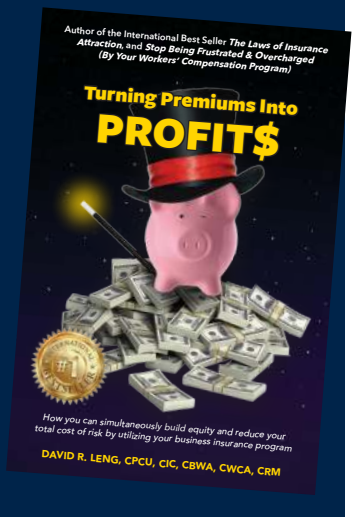


Is Your Business Insurance DRIVING YOU CRAZY?

When you look at the amount of money you have just handed over to the insurance companies and received very little or nothing in return, do you feel frustrated... or like you are going insane? ***That high-priced insanity stops here.***

With his latest book, ***Turning Premiums Into Profits***, David Leng shows you how to break this costly insurance cycle and gain more control over your insurance program while building equity that will help you and your business. You will see how businesses that are paying over $100,000 annually in insurance premium can benefit from ***Alternative Risk Financing, especially Insurance Captives.***

With a 30-year track record in advising employers on how to save substantial money in their premiums, David spells out clearly and precisely why the use of Captives has become the most popular of the alternative risk financing programs being used today. And why it just might be the solution your company needs to increase both its ***profitability*** and its ***equity***.



Visit www.TurningPremiumsIntoProfits.com to learn more.

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