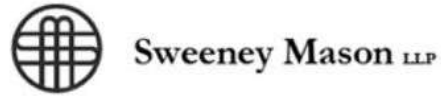


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Evening: Emerging Professionals Mixer

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Wednesday, January 8, 2025

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Breakfast: How to Love Lien Law

Wednesday, February 12, 2025

Holiday Inn, San Jose
1350 North First Street





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CONSTRUCTION

Why Are Contractors Moving Insurance Into Captives?

By Jim Untiedt CPCU, ARM, CRIS
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CFMA Member Since 1988
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Why are Contractors Moving Insurance Into Captives?

3 Reasons:

- Desire to own insurance rather than rent it - More Control
- Want to swim in a cleaner pool - best in class peers
- Want to bet on themselves for better safety & risk management-
Feeling is we can outperform our peers

What is a Group Captive?

Multiple companies come together to form an insurance company. The captive retains predictable risk up to \$400,000 and transfers risk above their amount to an insurer

Insurance coverage can include Workers Compensation, General Liability, and Auto. Most captives insist on Workers Compensation as the lead line of coverage

What Makes a Successful Captive?

Clear Underwriting / Selection Standards - 300k min Premium

Focus on Safety

At Least 50 Members to Share Risk

Always "Getting Better" Mentality on safety and risk

Active Participation at Board Meetings

Expert Captive Advisor & Broker - need strong service team to get results

\$25mm subcontractor, or \$50mm GC with some self performed work

Captive Insurers / Consultants

Captive Resources - first and largest provider of group captives - 75% market share

Innovative Captive Strategies

Strategic Risk Solutions

Artex

Breckpoint

Captive Insurance Group

Construction Partners Exchange

ACIG

Pillar

Standard Insurers (Liberty, C.N.A, Hartford, Travelers) New options in last 2 years. Prefer \$350,000

Estimated: 10 Billion in Group Captive Premium in 2024.

5,000+ Contractors in Group Captives

Perfect Fit

Strong Safety Culture – Meet / Exceed Captive Risk Score of 85

Strong Financials (Pay claims & collateral)

Private Firm

Bet on Yourself Everyday

Willing to Take Risk (50%) for Reward (60%+)

Pay \$300,000 or more in Casualty Premium (Liability, Auto, WC)

5 Year Loss Ratio is typically under 40%, EMR under 1.00

Medium to Low - Risk Operations

Captive vs Traditional Insurer

	Captive	Traditional Insurer
Operating Costs & Expenses	Transparent – typically 35%-40% of total insurance cost	Operating costs not disclosed
Premiums	<ul style="list-style-type: none"> • Based on your loss experience by an actuary • Captive owners find predictable losses up to \$100,000, while reinsuring catastrophic losses above \$400k (captive retention) 	<ul style="list-style-type: none"> • Premiums based on Insurer experience in your industry • Premiums based on your loss experience and industry loss experience
Investments	Captives invest loss funds on behalf of owners with an average return of 5%	Insurers retain investment income
Risk Profile / Acceptance	Captive Owners set parameters of target members	Insurers identify classes of acceptable risks, then underwriters choose/price individual clients
Claim / Safety Services	T.P.A.'s	Insurer provided

Captive Positives

- Earn investment income - typically 5% over last 10 years
- Transparency on Fixed Captive Costs
- Rate stability over time – No Surprises
- Large claims capped at \$100,000 by Actuary
- Equity build up / Distributions
- Learn from other members in business forum
- A “little” more control over claims
- Composite rates for GL, WC, and Auto simplifies audits

Captive Negatives

- Not all coverage options available – Example is excess OCIP coverage, low UM limits
- Collateral required (2x A Fund over 3 years)
- Executive level commitment to attend board meetings
- Majority vote can change terms / coverage amounts
 - GL limit increase to \$2mm
 - Auto increase to \$2mm
 - A Fund increase from \$100k to R125k
- Assessments for claim frequency up to 2x A Fund (about 50% of casualty Premium)
- Pay claims of others – Average is about 4-5% of your premium each year
- Cost of Umbrella Insurance can be greater
- \$36,000 membership fee to join captive

Captive Meetings – 2 times per year

- Locations:

Whistler

Banff

Victoria

Quebec

Cayman

Cabo

Montreux, Switzerland

Curacao

Scottsdale

Bahamas

Buenos Aires

Barbados

Rome

Rivera Maya, Mexico

Interior General Contractor Example

	Year 1	Year 5	Change
Sales	\$115mm	\$85mm	
EMR	.62	.74	
# Vehicles	29	25	
WC Rate/100 payroll	\$1.44	\$.79	↓45%
GL Rate/1,000 sales	1.76 (\$2M/\$4M)	1.48 (\$2M/\$4M)	↓16%
Auto Rate	\$2,222 (\$1M CSL)	\$2,068 (\$2M CSL)	↓7%
Total Captive Premium	\$337,205	\$228,635	
Loss Funding	\$202,323	\$137,181	
Equity Distributions - Last 8 years		Interest income Dividends Equity	\$ 139,400 392,044 <u>611,590</u> \$1,143,034

Interior Subcontractor Example

	Year 1	Year 5	Change
Sales	\$42,000,000	\$48,000,000	
EMR	.77	.58	
# Vehicles	23	28	
WC Rate/100 payroll	2.159	1.41	↓35%
GL Rate/1,000 sales	1.561 (\$1/\$2M)	1.936 (\$2M/\$4M)	24% increase
Auto Rate	\$1,988 (\$1M)	\$1,708 (\$2M)	↓14%
Total Captive Premium	\$244,855	\$301,304	
Loss Funding	\$145,900	\$160,800	
Equity /Distributions (5 yrs)	\$573,000 (includes interest income of \$52,719)		



Questions?

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