



ACWA JPIA 2018 Spring Conference

May 8, 2018

Using Captives to Manage Risk and Maximize Reward

Presented by:

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*Partners in
Managing*



Sheraton Hotel - Sacramento, California

Exploring an Insurance Captive

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CSAC Excess Insurance Authority (EIA) Profile

- California-based Joint Powers Authority
- Annual Budget: \$865 million
- Invested Assets: \$756 million
- Net Position: \$144 million

CSAC Excess Insurance Authority (EIA) Profile

- Membership: All Public Entities
(County, City, Schools, Special Districts)

Individual Members	311
JPA Members	<u>26</u>
Total Members	337

- Total Covered Entities: 1,951
- 10 Major Programs

CSAC Excess Insurance Authority (EIA) Profile

Major Programs

Excess	Primary	Employee Benefits
* Liability 1	* WC	Health
* Liability 2	* Liability	Dental
* WC	* Property	
Med Mal	MR OCIP	

* Participates in Captive

What is a Captive?

Wholly owned private Insurance Company

- Still would be a non-profit
- IRS Section 115

Why form a Captive?

- Save money
- Insurance options
- Protect assets



Who will own & operate the Captive?

- Owned by the JPIA
- Separate Board of Directors
- Managed by JPIA staff



Why?

- Save money
 - Discount excess/reinsurance costs
 - Increased investment earnings
 - Risk finance option
- Insurance Options
 - Coverages
 - Limits
 - Retention
- Protection of assets
 - State regulations

Captive Profile

- Excess Insurance Organization, Inc. (EIO)
- Domiciled in Utah, July 1, 2016
- Single Parent (Pure) Captive, Tax Exempt
- Captive Management: In-house (EIA)
- Governing Board, 7 Members
 - EIA Staff: 2 Members (CEO, COO)
 - EIA Board: 3 Members
 - EIA General Counsel: 1 Member
 - Utah Legal Counsel: 1 Member

Captive Profile

2017/18 Budget

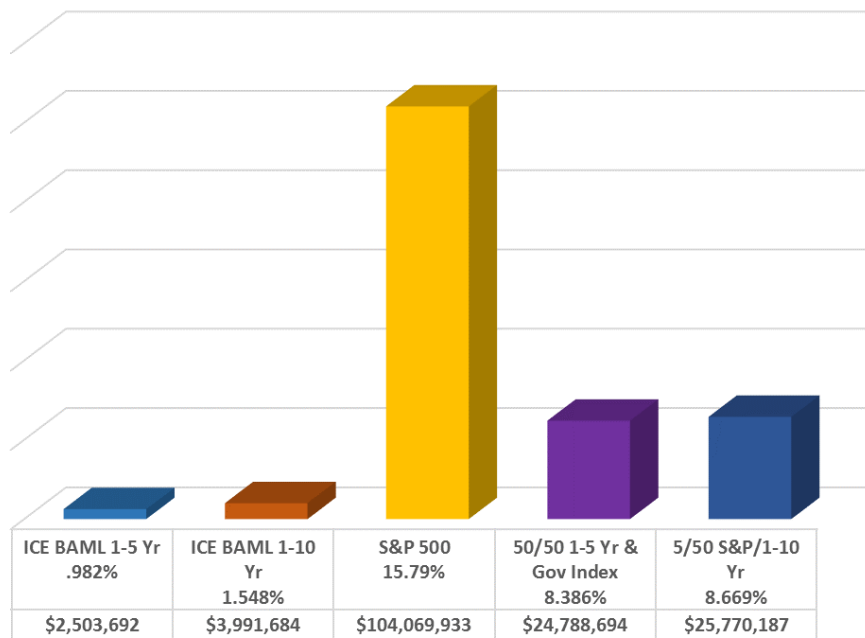
Program Administration	
Actuarial Services	\$ 0
Audit Services	17,000
Legal Service	12,000
Board Meetings	19,000
Utah Captive Fees	5,250
Investment Management Fees	215,000
Banking and Custody Fees	45,000
Management Services	75,000
Office Supplies, Website Hosting and Misc Expenses	13,100
Total Program Administration	\$ 401,350

Save Money

Investment Earnings

- Investment Vehicles (example portfolio breakdown)
 1. Equity Fund
 - a) Index Mutual Funds and exchange-traded funds
 2. Fixed Income Fund
 - a) Treasury's, Agencies, and High Value Corporation Bonds
 - b) 1-10 year vs. 1-5 year durations
 3. Real Estate
 - a) REITs

5-YEAR INVESTMENT RETURN



Save Money

1. Discounted reinsurance excess premiums
 - a) Captive retains larger of risk
 - b) Discounts cost to JPIA
2. Underwriting savings
 - a) Example – JPIA buys \$55 million from Captive, Captive buys \$50 million and underwrites \$5 million, current cost of \$5 million is approximately \$1.2 million
 - b) Shields from market volatility

Insurance Options

Improved Purchasing Power

- Bundling risk through one entity – Liability, Property, Work Comp, and Employee Benefits
- Retention of more risk could stabilize market volatility
- Control of claims settlements
- Levels and types of coverages
 - Subsidence
 - EPL
 - EO & Flood

Protection of assets

Protection of Assets

- Captive would be outside of California State regulations and possible adverse actions
 - a) Would still be required to meet all insurance and funding requirements of domiciling state

Additional Considerations

- Capital Commitment
 - Initial expectation - \$25 million to \$60 million
- Operating Costs
 - Implementation costs
 - Management fees
 - Legal
 - Actuary
 - Investment manager
 - Auditing
 - Local taxes and fees

Additional Considerations

- Risk of adverse results
 - Investment losses
 - Underwriting results
 - Excessive losses
- Commitment of managements resources

Next Steps

Business Plan

- Detail initial steps
 - Initial set-up including State regulations
 - Funding requirement
 - Operation procedures
 - Governance
 - Board of Directors
 - Management



Summary

1. Concept introduced to Board of Directors at 2017 Fall Conference
2. Periodic updates to membership
3. Secure required professionals
4. Finalize Business Plan and required documentation
5. Make regional presentations summer 2018
6. Present resolution to Board of Directors at 2018 Fall Conference
7. Begin implementation October 1, 2019

