

BankDirector.

Breakout 1:
**How Captive Insurance
Can Empower Banks
During Turbulent Times**

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#BDAudit24



CIC SERVICES

Turning Risk Into Wealth

How Captive Insurance Can Empower Banks During Turbulent Times

Presented by: Christopher Gall, CIC Services Managing
Director

Managing Director – CIC Services, LLC



- Prior to CIC Services, concluded a 35-year Connecticut Ins. Dept. regulatory career
- Career lesson - importance of sustainable liquidity, and cash flow, in any enterprise
- Captives allow business to not only survive, but to thrive, in any economic environment
- BS in Administrative Science from Central Connecticut State University
- Certified Financial Examiner

What We'll Cover

The innovative strategy of using captive insurance companies to reduce costs for banks in health and other insurance lines.

We'll uncover how banks can leverage captives to:

- **Control Premiums**
- **Enhance Risk Management Program**
- **Achieve Long-term Cost Savings**



Learn how to navigate this powerful tool effectively in the insurance landscape.

The Problem: Turbulent Market Means Volatile Premiums

Average Premium Increase of 6% in 2024 (WCW)

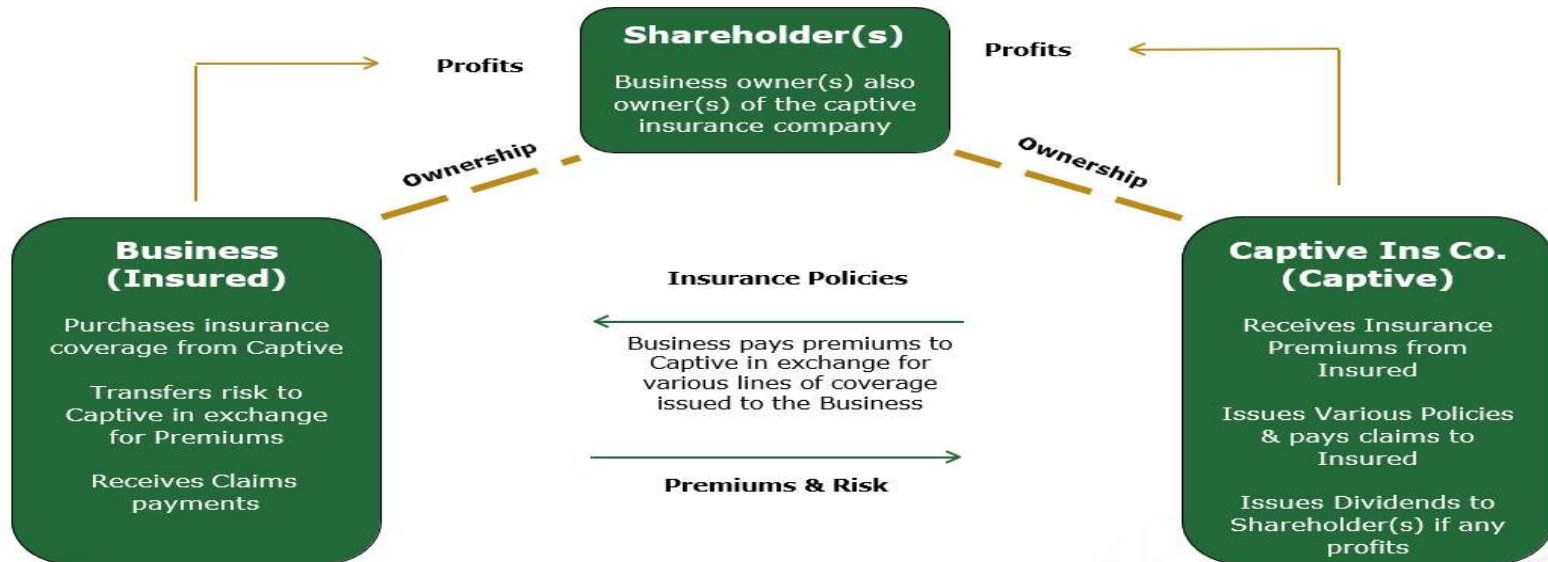
- Inflation
- Rising Wages
- Clinical Workforce Shortage
- Increased Cost of Pharmaceuticals



Organizations Need to Reshape Their Strategies

In turbulent economic or market conditions, traditional insurance premiums can be volatile and expensive. Captive insurance allows banks to have more control over their insurance costs.

What is a Captive Insurance Company?



Captive Insurance Company

Definition:

- **Captive Insurance Company (Captive):** a real insurance company (with policies, policyholders, claims, reserves and surplus), licensed in an appropriate jurisdiction, formed to insure the risks of its owners and sometimes third parties.
- **Captives** are generally owned by the same economic interest as the primary company(ies) they insure, resulting in the capture of all underwriting profits by the business owner(s).
- **Captives** have been around since the 1950s and insure businesses in virtually every industry and sector of the market.

Captive Insurance Company

A captive's insurance license allows it to obtain reinsurance which opens the door to additional methods of coverage such as risk pools.



A risk pool is a shared fund where participants collectively spread the financial risk of potential losses, offering potential premium reductions and greater financial stability.

Captive Insurance Companies Provide...

SURVIVAL



Stronger Business Model



Improved Risk Management



Improved Cost Control



Insurance Profits



Asset Protection

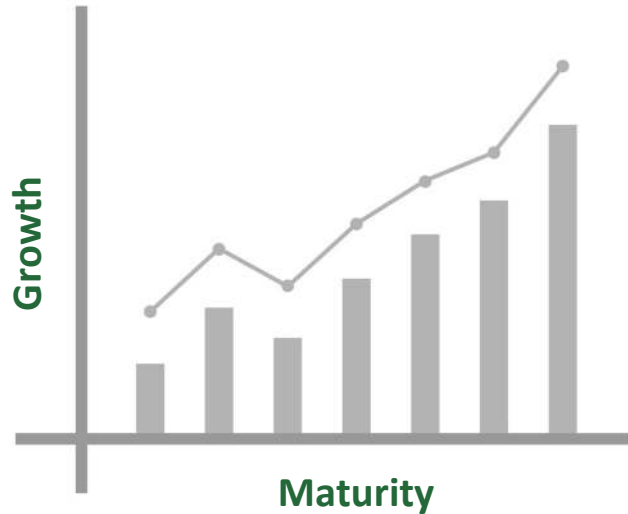


Wealth Accumulation



Advantageous Tax Treatment

How a Captive Can Work for a Business



We believe that there is a direct correlation between a business's maturity and growth and a captive insurance program due to an increased complexity and risk profile as business grows. This is reflected in the ongoing growth, development, resilience, and success of the captive insurance model as an alternative risk management strategy.



How Does a Captive Control Rising Health Care Premiums for Your Bank?



Customized Coverage: Captive insurance allows banks to tailor insurance policies to their specific needs. By designing coverage that aligns with their risk profile and employee demographics, banks can eliminate unnecessary coverage and focus on areas that matter most, thereby controlling costs.



Risk Management: With greater control over claims and risk management processes, banks can proactively address health-related risks. By implementing wellness programs and safety initiatives, they can reduce the frequency and severity of claims, leading to lower premiums over time.



Profit Sharing: Any profits generated by the captive can be returned to the bank, offsetting insurance costs and helping to stabilize premiums. This financial incentive encourages effective risk management and loss prevention strategies.



Stable Pricing: Captive insurance can provide more stable and predictable pricing compared to the traditional insurance market, which can be volatile. This stability allows banks to budget more accurately and avoid sudden premium hikes.

PROBLEM – PRIOR TO CAPTIVE FORMATION, 13.14% CLIENT LOSS RATIO

**CARRIER/COMMERCIAL
RISK LAYER**

\$1M

**CLIENT DEDUCTIBLE RISK
LAYER**

\$250K

PROBLEM – AFTER CAPTIVE FORMATION, 105% CLIENT LOSS RATIO

**CLIENT CAPTIVE RISK
LAYER**

\$1M

**CLIENT DEDUCTIBLE
RISK LAYER**

\$250K

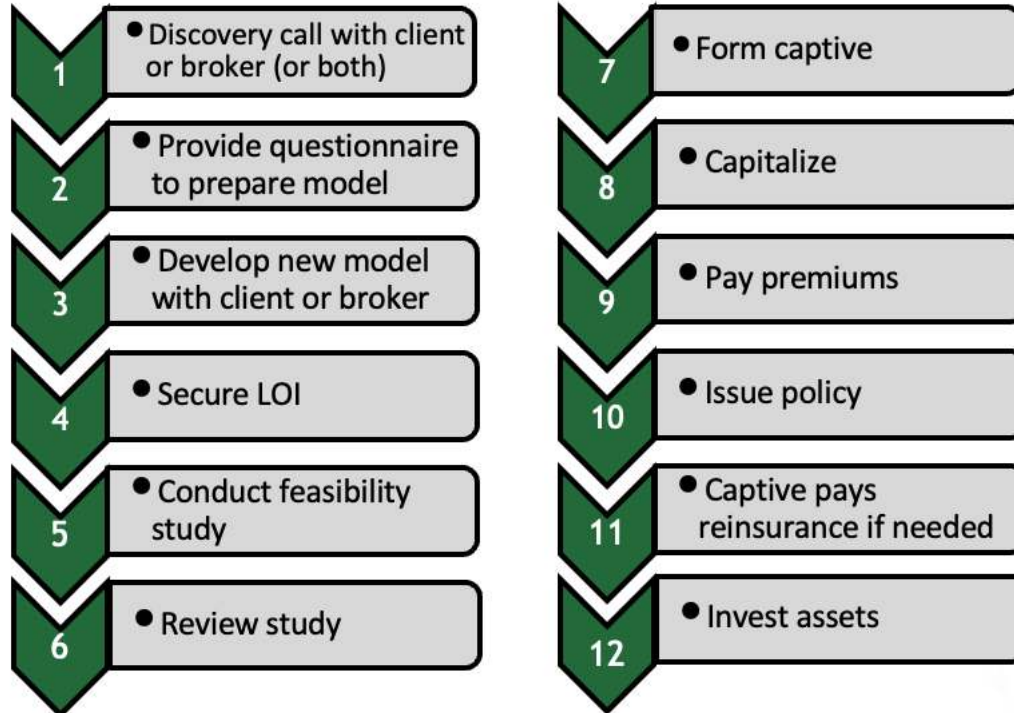
Solution: Proven TPA Track Record

- 0% Health Premium Increase for 698 out of 700 (99.7%) Companies in 2024
- TPA Mitigates All Losses (From Deductible to Stop Loss Layer)
- Results in Profits that Inure to Business Owner
- TPA Has Underwriting Pen Up to \$10mm
- TPA Procures Best Insurer/Terms for Each Line of Business

Case Study

	A	B	C	D	E	F	H	I	J	K	L	M	N
1	Cell Captive illustration	Year 1	Year 2	Year 3	Year 4	Year 5		Current Program (no Benefit, only Cost)	Year 1	Year 2	Year 3	Year 4	Year 5
2	Total Premiums (all lines + Health)	\$3,313,600	\$3,711,232	\$4,156,580	\$4,655,369	\$5,214,014		Total Premiums (all lines + Health)	\$3,800,000	\$4,256,000	\$4,766,720	\$5,338,726	\$5,979,374
3	Reinsurer Fees (Excess Carriers)	\$1,491,120	\$1,670,054	\$1,870,461	\$2,094,916	\$2,346,306							
4	Commissions Paid	\$331,360	\$371,123	\$415,658	\$465,537	\$521,401		Commissions Paid	\$0	\$0	\$0	\$0	\$0
5	Net Premiums for Captive Funding Claims	\$1,491,120	\$1,670,054	\$1,870,461	\$2,094,916	\$2,346,306							
6	Total Premiums + Commissions	\$3,644,960	\$4,082,355	\$4,572,238	\$5,120,906	\$5,735,415		Total Premiums + Commissions	\$3,800,000	\$4,256,000	\$4,766,720	\$5,338,726	\$5,979,374
7													
8	Claims Paid (80% Loss Ratio Assumption)	\$1,192,896	\$1,336,044	\$1,496,369	\$1,675,933	\$1,877,045			\$0	\$0	\$0	\$0	\$0
9	Management Fee (Legal, Audit, Risk Assessment)	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000			\$0	\$0	\$0	\$0	\$0
10	Regulator Fee	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000			\$0	\$0	\$0	\$0	\$0
11	TPA	\$149,112	\$167,005	\$187,046	\$209,492	\$234,631			\$0	\$0	\$0	\$0	\$0
12	Total Claims + Expenses	\$1,443,008	\$1,604,049	\$1,784,415	\$1,986,425	\$2,212,676			\$0	\$0	\$0	\$0	\$0
13													
14	Underwriting Profit (Net of Commissions)	\$48,112	\$66,005	\$86,046	\$108,492	\$133,631			\$0	\$0	\$0	\$0	\$0
15	Tax On Underwriting Profit	\$0	\$0	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
16	After-Tax Underwriting Profit	\$48,112	\$66,005	\$86,046	\$108,492	\$133,631			\$0	\$0	\$0	\$0	\$0
17	Investment Income (Assume 5%)	\$0	\$37,198	\$43,626	\$50,717	\$57,526							
18	Investment Earnings Income Tax (27%)	\$0	\$10,044	\$11,779	\$13,693	\$15,532							
19													
20	Net Income	\$48,112	\$93,160	\$141,451	\$172,902	\$206,689			\$0	\$0	\$0	\$0	\$0
21	Capital Contribution (Year 1 Only)	\$0	\$0	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
22	Cell Captive's Retained Earnings	\$48,112	\$93,160	\$141,451	\$172,902	\$206,689			\$0	\$0	\$0	\$0	\$0
23	Holding Co. Tax Savings (expensed line item on P/L)	\$695,856	\$779,359	\$872,882	\$977,628	\$1,094,943		Holding Co. Tax Savings	\$798,000	\$893,760	\$1,001,011	\$1,121,133	\$1,255,668
24													
25	Retained Earnings + Holding Co. Tax Savings	\$743,968	\$872,519	\$1,014,333	\$1,150,529	\$1,301,632		Retained Earnings + Holding Co. Tax Savings	\$798,000	\$893,760	\$1,001,011	\$1,121,133	\$1,255,668
26	Estimated Insurance Premium Savings To Holding Co.	\$155,040	\$173,645	\$194,482	\$217,820	\$243,958		Estimated Insurance Premium Savings To Holding Co.	\$0	\$0	\$0	\$0	\$0
27	Per Year Retained Earnings/Holding Co. Tax & Premium Savings)	\$899,008	\$1,046,164	\$1,208,815	\$1,368,349	\$1,545,591		Per Year Retained Earnings/Holding Co. Tax & Premium Savings)	\$798,000	\$893,760	\$1,001,011	\$1,121,133	\$1,255,668
28	Cumulative AUM (Line 27) at 80% Loss Ratio Assumption	\$899,008	\$1,945,172	\$3,153,987	\$4,522,336	\$6,067,927		Cumulative AUM (Line 27)	\$798,000	\$1,691,760	\$2,692,771	\$3,813,904	\$5,069,572
29													
30	Cumulative AUM (Line 27) at 60% Loss Ratio Assumption					\$8,048,632							
31													
32													
33	Cumulative AUM (Line 27) at 30% Loss Ratio Assumption					\$11,019,690							
34													

Captive Formation Steps



About CIC Services, LLC

CIC Services, LLC is a risk management and consulting firm, specializing in the formation and operation of captive insurance companies for our clients nationwide. As an independent captive insurance manager, CICS provides unparalleled solutions to mid-market businesses in all industry sectors. CICS has been helping businesses setup and own their own insurance companies for nearly two decades, and currently manages nearly 150 insurance companies from our headquarters in Knoxville, TN.

CICS takes pride in our ability to simplify the unique complexities of insurance company operations and present them in “plain English”. By lifting the veil on the insurance industry, CICS enables our clients to enhance their overall risk management profiles while sharing in the insurance profits in a manner which has been previously exclusive to the Fortune 500.

Principals of CICS serve on numerous industry-wide committees, including those sponsored by the Self Insurance Institute of America and the Captive Insurance Companies Association.



Disclosures

CIC Services, LLC hereby expressly authorizes each person to whom these materials are given by CIC Services, LLC or its affiliates or authorized agents (and each employee, representative or other agent of such person) to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein, or effected hereby, and all materials of any kind (including all opinions or other tax analyses) that are provided to such person related to such tax treatment and tax structure. In the case of a document which is a contract or agreement, the persons authorized to make such disclosure include all parties thereto.

Neither CIC Services, LLC nor any person who provided this material to you render legal, insurance regulatory or tax advice. Your advisors should be consulted for their interpretations of legal, insurance regulatory or tax considerations. Any projections provided reflect current conditions and will likely change in the future. Any illustrations provided are an illustration of values and benefits only and is not to be construed as a contract. To the extent that insurance products are illustrated, this proposal is invalid without the illustration of contract values and the accompanying supplemental footnote pages. To the extent that investment products are illustrated a current prospectus must accompany this proposal.

All information, numbers and calculations in this document are for conceptual and illustrative purposes only and are not intended to reflect the potential results for any particular client and should not be used for this purpose.

No transaction should ever be completed simply or even primarily to achieve tax savings. The IRS may deny deductions for transactions that are motivated primarily by tax considerations and may conclude that a captive formed primarily for tax purposes is illegitimate. Captives should only be implemented by those business owners who are primarily motivated by risk management and asset protection concerns, and the non-tax reasons for the captive should be sufficiently documented.

In 2016 via IRS Notice 2016-66 the IRS designated certain types of captive insurance transactions as “transactions of interest” necessitating the affirmative disclosure to the IRS by taxpayers of certain information regarding such transactions. Consult your independent tax advisor to determine the applicability and significance of Notice 2016-66 to any captive insurance transaction in which you have engaged or may ultimately engage.

Questions?



CIC SERVICES

Turning Risk Into Wealth

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