



Frequently Asked Questions

What is a Captive?

A captive is an insurance company owned by the insureds. It is simply one method by which risk to loss is financed. Captives are usually a good choice for a company with a good loss record, good risk management and the ability to finance its own exposures. It is a form of self insurance in which there lies the possibility of a tax deduction for future claims. Captive insurance companies are limited purpose insurance companies established with the specific objective of financing risks emanating from their parent group or groups, although they sometimes also insure some of the risks of the parent company's customers. In the simplest terms, it is an in-house self-insurance vehicle.

Captives usually represent commercial, economic and tax advantages to their sponsors due to the reductions on costs they help create, the ease for insurance risk management and the flexibility for cash flows they generate. Additionally, they may provide coverage of risks which are neither available nor offered in the traditional insurance market at reasonable prices, and allow the relevant group direct access to reinsurance markets.

CTIP will be owned and governed by its member insureds, which was be members of CTAA. CTIP will be independent of CTAA and pass along no financial liability whatsoever to CTAA.

Who is on the CTIP Board of Directors?

The CTIP Board of Directors consists of the following board members that represent a broad section of provider organization types and sections of the country:

1. Chairman: Fred Stoffer, Executive Director, Special Mobility Services, Portland, OR;
2. Vice-Chairperson: Donna Kelsay, General Manager, San Joaquin Regional Transit District, Stockton, CA;
3. Secretary: Ross McLaurin, Director of Transportation, Shandon Baptist Church, Columbia, SC;
4. Treasurer: Reginald (Rex) Knowlton, CTAA Board Liaison and United We Ride Ambassador, Cinnaminson, New Jersey
5. Board Member: Ron Baumgart, General Manager, River Cities Public Transit, Pierre, SD;
6. Board member: Bill Osborne, Executive Director, Southeast Missouri Transportation Service, Inc., Fredericktown, MO;
7. Board Member: Walt Diangson, President, Pacific Shore Insurance, Costa Mesa, CA

What is an Association Captive?

This type of captive is formed by an established association to provide insurance coverage for members. Ownership rests with the association or with individual insured members.

In the case of CTIP, CTAA help initiate and sponsor CTIP and its eventual licensing. CTIP is intended for members of CTAA. CTAA's various training, professional development and technical assistance will be coordinated with CTIP's risk management support to its insured members.

What are the reasons for forming a captive insurance company?

It is popularly thought that a captive is primarily a tax minimization device. In fact, captives are usually formed for other economic reasons with the main drivers being risk management and risk financing. Some of these reasons are summarized below.

- **Lower insurance costs.** Commercial market insurance premiums must be adequate to meet the cost of claims but, in common with other commercial enterprises, insurers are in business to make money and will therefore include in the premium an element to provide for their acquisition costs, overheads and profit. This portion of the premium can represent as much as 35% or 40% of the whole. In establishing a captive, the parent seeks to retain the profit within the group rather than see it go to an outside party. A captive may also help reduce insurance costs by charging a premium that more accurately reflects the group's loss experience.
- **Cash flow.** Apart from pure underwriting profit, insurers rely heavily on investment income. Premiums are typically paid in advance while claims are paid out over a longer period. Until claims become payable the premium is available for investment. By utilizing a captive, premiums and investment income are retained within the group. Additionally the captive may be able to offer a more flexible premium payment plan thereby offering a direct cash flow advantage to the group.
- **Risk retention.** A company's willingness to retain more of its own risk, particularly by increasing deductible levels, may be frustrated by the inadequate discount offered by insurers to take account of the increased deductible and by the fact that the company is unable to establish reserves to pay future claims. Establishment of a captive can help address both these problems.
- **Unavailability of coverage.** Where the commercial market is unable or unwilling to provide coverage for certain risks or where the price quoted is seen to be unreasonable, a captive may provide the cover required and at more reasonable rates.
- **Risk management.** A captive can act as a focus for the risk management and risk financing activities of the group. An effective risk management program will result in recognizable profits for the captive. Risk management can be viewed by the captive's owners not as a cost center, but as a potentially profitable part of the company's activities.
- **Access to the reinsurance market.** Reinsurers are the international wholesalers of the insurance world. Operating on a lower cost structure than direct insurers, they are able to provide coverage at advantageous rates. By using a captive to

access the reinsurance market, the buyer (group) can more easily determine its own retention levels and structure its own program with greater flexibility.

- **Writing unrelated risks for profit.** Apart from writing a group's own risks, a captive may operate as a separate profit center by writing the risks of third parties. In particular, an organization may wish to sell insurance to existing customers of its core business.
- **Tax minimization and deferral.** The tax considerations in forming a captive will depend on the domicile of both the parent and the captive. Integration of a captive as part of an overall tax planning strategy is a complex subject so that professional legal and tax advice is essential.

What are the advantages and disadvantages of a captive?

Advantages

- Cost Reduction — a captive can reduce the overall cost of an insurance program by retaining the premium for the expected losses thereby avoiding the premium loading for a commercial insurer's overhead and profit.
- Improved cash flow — the captive has control of its premium flow. It can be held to pay future losses and invested. This income can be used to offset the cost of running the captive.
- Enhanced risk management — a centralized risk management program can improve and promote better loss control.
- Availability of coverage — the captive can be utilized in resolving market cycles and providing a continuity of coverage for a price the insured is prepared to pay.
- Access to reinsurance markets — the captive can have direct access to the reinsurance markets around the world. This can help to lower the program costs.
- Insurance program flexibility — a captive can tailor its own insurance policy for the coverage the parent requires.

Disadvantages

- A captive requires a minimum capital commitment that is agreed to by the insurance regulator in the captive's domicile. This capital supports the level of writings of the captive.
- Ultimately the captive will be at risk of adverse underwriting results. However a captive program is generally structured to minimize such risks.
- The formation and operation of a captive is costly. Such costs include, but are not limited to, implementation costs, management fees, professional fees, regulatory fees and taxes. A captive also requires a time commitment of its sponsor or group of insureds.

How do you put a captive together?

CTIP followed the following steps or will follow the *remaining steps* in establishing the company:

- Step 1: Received support from CTAA and others for forming a captive company.
- Step 2: Surveyed CTAA members for interest and insurance data
- Step 3: Established a conceptual plan for a CTAA-member insurance entity.
- Step 4: Assembled a team of insurance industry specialists.
- Step 5: Determined the feasibility of a captive insurance company for members of CTAA
- Step 6: Developed a business plan and selected a domicile and a team of key service providers.
- Step 7: Held various introductory meetings with the domicile Insurance Department to present the overall concept and preliminary business plan.
- Step 8: Established a board of directors, incorporated CTIP
- Step 9: Developed various operating documents, including underwriting guidelines, safety manuals, best practices statements, loss control plan, and supplemental application forms.
- Step 10: Established commitments from fronting and reinsurance companies.
- *Step 11: Finalize the captive application and submit it.*
- *Step 12: Respond to inquiries from the Insurance Department and revise the business plan accordingly. Receive conditional approval.*
- *Step 13: Develop offering statement and capitalize the company.*
- *Step 14: Receive final licensing approval upon attaining commitments for the minimum required capital contributions.*
- *Step 15: Commence operations: take applications, underwrite, quote, take down payments and remaining capital contributions, bind coverage, provide policy administration, provide risk control support and training, provide claims servicing and on-going customer service.*

What lines of insurance coverage will be offered by CTIP?

Pending final approval from state regulators, CTIP will offer the following coverages:

- Commercial Automobile Liability (CAL)
- Commercial General Liability (CGL)
 - Possible Endorsements:
 - ADA Compliance (Legal Defense)
 - Through-the-door (beyond the threshold) driver assistance
 - Volunteer Liability
 - Others
- Physical Damage to Vehicles (Phys. Dam)

What limits of insurance will be available through CTIP?

Pending final approval by the state regulators, CTIP will offer the following limits:

- Commercial Automobile Liability: \$1,000,000 primary
- Commercial General Liability: \$1,000,000 primary
- Excess Liability Options for Excess of the primary \$1,000,000: Additional \$1,000,000 up to \$4,000,000, maximum total of \$5,000,000
- Physical Damage: ACV Catastrophe limit \$1,500,000 by location and \$250,000 per vehicle
- Various deductible options

Will CTIP be fronted by a commercial insurance company?

Yes, it will be fronted by an A-rated carrier admitted and licensed in most if not all fifty-states. This is especially important to those CTAA members that contract their services to public agencies.

If I have an existing insurance broker and I would like him to handle placement of my insurance with CTIP, can I continue to involve him?

Yes, you may. Quotes for insurance to you and to your broker will be net quotes. That is, there will be no broker's fee within that quote. Your broker will add and disclose the appropriate broker's fee to that quote upon presentation to you. Application to CTIP through the fronting company will first go through the captive's managing broker, Pacific Shore Insurance Services, Inc. (PacShore) for initial review and underwriting and processing to the fronting company's underwriters. Quotes and proposals will then come back through PacShore from the fronting company to your broker and to you.

Does a prospective member have to provide capital and surplus besides an annual premium?

Yes, a prospective member of CTIP will have to set-aside one-third (1/3) of the first year's premium as capital and surplus. The funds are overseen by the captive manager in compliance with state regulatory oversight.

What is the next step in establishing the captive insurance program for CTAA members?

CTIP is pending licensing at this time. After receipt of the conditional license, CTIP will seek commitments from prospective captive members in the form of commitment letters and letters of credit or cash in the amount of one-third of their estimated premium for the first year. The funds and letters of credit will be placed into an escrow account managed by the captive manager. Upon reaching a minimum capitalization of \$1.5 million, final approval will be sought from the domicile state's insurance regulators.

If someone is interested in joining the captive, what steps must one take to join?

After receipt of the final state license, CTIP will commence full operations. A prospective member will then submit an application for final underwriting and issuance of a policy. At that time, you will be asked to provide the following items:

- A set of applications for coverage;
- Five year's of loss histories of your operations for auto liability, physical damage and general liability;
- A current schedule and current values of vehicles owned and operated by you; showing seating capacity and if vehicle is equipped with wheelchair lift or ramp
- A description of your current insurance in the form of a copy of your current insurance policy declaration page; and
- Upon acceptance of the quote and prior to binding, deposit in acceptable forms (1) down payment for the first year's premium; and (2) one-third of that first year's premium as capital and surplus (capital and surplus contributions are only required in the first year and as amended for increases in fleet size, operations and other).

Does someone interested in joining the captive have to be a current member of CTAA to avail them of the program?

Yes, a prospective member must be a member in good standing of CTAA in order to be a part of the captive's membership. The state regulator and the captive will also expect that membership in CTAA continue while insurance coverage is provided.

What type of risk management and loss control can be provided to members of the captive?

The captive through its service providers plan to provide risk management support – safety programs, training, professional development, literature, guidelines, web information and resources and other support to members that is industry-specific and relevant to public and community transportation operators (public, private-non-profit, and private-for-profit organizations, urban to rural, and transit to paratransit).