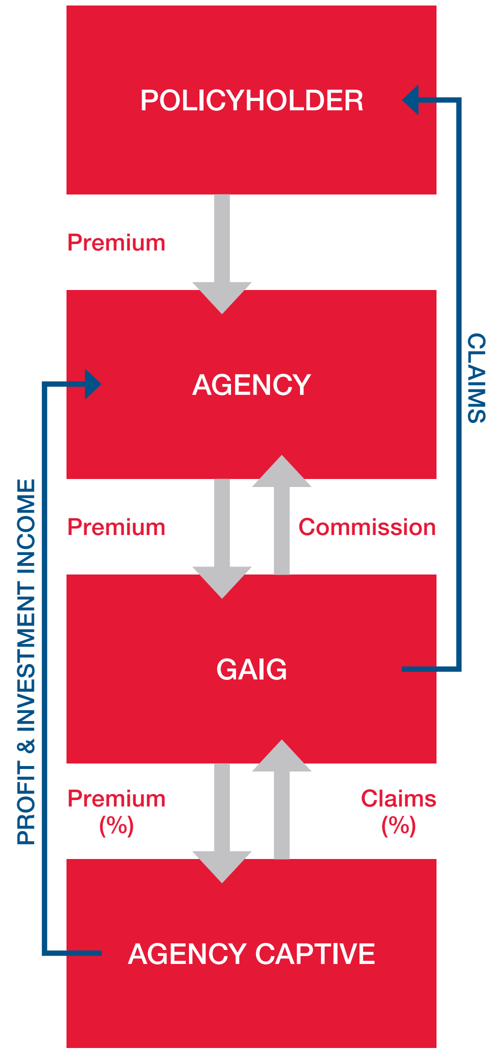
Considering an Agency Captive?

See how the numbers stack up

Great American Alternative Markets works with agencies nationwide to identify profitable books of business and build customized reinsurance facilities. This enables the agency to underwrite a portion of the risk. With a captive, you can potentially secure **a much greater revenue flow** compared to traditional profit sharing.

To consider a captive, an agent has to have **profitable business**, an **appetite for risk** and the **willingness to invest** significant resources to make the program successful. An agency captive is considered a long-term strategy and create additional revenue with an exclusive insurance facility that differentiates the agency in the marketplace.

The following case study and pro forma illustrate the core expenses, collateral and potential profit of a quota share agency captive structure.



Case Study — ABC Insurance Agency

- Controls more than $20 million in commercial P&C business.
- Works with a broad range of carriers.
- In many cases, is unable to reach minimum volume or growth thresholds imposed by current carrier relationships to benefit from profit sharing.

ABC Insurance Agency's heterogeneous book of business has been profitable, but the agency is limited to general commission. It is looking for **additional revenue sources** and a l**ong-term business strategy** to retain highly performing producers and to reinvest in the agency.

The agency is evaluating the costs and benefits of a heterogeneous (generalist) agency captive with Great American. This decision-making process has to balance the cost of capital (needed to provide collateral to Great American) and the additional revenue that the investment will produce based on historical portfolio performance.

This chart highlights the potential financial benefit for an agency captive program when ABC Insurance Agency has a $5 million book of business performing at a 55% loss ratio or below as compared to a standard profit sharing arrangement.

Option	Loss Ratio	Potential Captive Profit	Profit Sharing (4.5%)
See how you benefit with a captive!	0%	$1,311,400	$225,000
	15%	$1,015,150	$225,000
	25%	$817,650	$225,000
	35%	$620,150	$225,000
	45%	$422,650	$225,000
	55%	$225,150	$225,000
	60%	$126,400	?
	70%	($71,100)	?
	85%	($367,350)	?

Refer to pro forma on next page

This comparison assumes that the entire $5 million book of rollover is eligible for a 4.5% profit-sharing bonus and must perform at a 55% loss ratio or below to qualify. In the agency scenario, the loss ratio expressed is a net loss ratio and applies to the quota share risk assumed by the captive. It also contemplates a similar loss ratio to the excess portion of the program retained by Great American. Potential profit presented is based on the net loss ratio and only a one-year estimated investment income based on a historical funds withheld declared rate. This figure does not account for compounding or variations in claim payout patterns throughout the duration of the program. The breakeven point does not account for the cost of capital (or collateral) required to initiate an agency captive alternative, nor does it account for the loss of profit sharing income while the agency captive builds surplus. This is generally a three-year period.

The captive relationship is subject to the terms and conditions contained in any Reinsurance Agreement and Producer Agreements between the Agency, Great American and the captive.

Expense Structure Assumptions

Gross Written Premium = $5,000,000
Quota Share Participation (primary layer) = 50% of $500,000 or $250,000
LOB Split = 20% Auto; 60% Package or BOP; 20% WC
Cash Collateral/Funds Withheld = 3.5%. Rate is subject to change*

Specific Excess Reinsurance	**17.0%**
Casualty $500,000 x $500,000	
Property $30 million per location	
Workers' Compensation Statutory	
Aggregate Stop Loss – 85%	**4.0%**
Ceding Commission	**37.0%**
Front	6.5%
Taxes, Boards	3.5%
Commissions	15.0%
Underwriting	5.0%
Claims	5.0%
Loss Prevention & Premium Audit	2.0%
Loss Fund	**$1,244,250**

Aggregate and Gap Detail

Gross Written Premium	**$5,000,000**
Less Specific Excess Premium	$850,000
Less Aggregate Excess/Stop Loss Premium	$200,000
Gross Net Written Premium for Primary Layer of $500,000	**$3,950,000**
Gross Net Written Premium Ceded to Captive - 50% Q/S	**$1,975,000**
Less ceding commission	$730,750
Net Premium Ceded to Captive (LossFund)	**$1,244,250**
MAXIMUM CAPTIVE EXPOSURE of 85%	**$1,678,750**
GAP Collateral • Collateral to the GAP • Collateral may be provided via Trust, LOC or Cash	**$434,500**

Definitions

Aggregate Stop Loss: A captive shall have no responsibilities for loss and loss expense that exceed 85% of the Gross Written Premium ceded to captive.

Gross Net Written Premium: Gross written premium less premiums for excess and aggregate stop loss reinsurance less return premium for cancellations and reductions.

Benefits of an Agency Captive Model

- Provides **additional revenue** to the agency that otherwise benefits the carrier.
- Quota Share model creates a pure alignment of interests between the agency and Great American – **a win/win.**
- **Flexible collateral options**, including Cash/Funds Withheld (Guaranteed Interest Rate), Letter of Credit or Trust.
- Captive can be branded to create a **unique, exclusive facility** available only to the agency.
- Great American can provide complete underwriting, claims, reinsurance accounting and captive management services **to make the transition seamless.**
- **Industry-focused program or a generalist book of business.**
- Great American Insurance Company and its pooling affiliates are **rated "A+" (Superior)** by AM Best and offer products in all 50 states.
- Distributions in the captive can be structured to **benefit the agency principal** and other **key agency personnel** for retention and succession.

AM Best rating affirmed December 3, 2021. Exhibits and examples are for illustrative purposes only and subject to change. Great American Insurance Group, 301 E. Fourth St., Cincinnati, OH 45202. 0903-ALT (02/22)

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