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THE NEXT GENERATION OF ASSOCIATION
SPONSORED INSURANCE PROGRAMS
WEBINAR

Dixie Arthur, President, ASAE Services, Inc.
Tony Benedetto, Director, National Association of Social Workers
Avin Domnitz, Executive Director, American Booksellers Association
Michael Murphy, Senior Managing Director, Beecher Carlson
Today’s Presentation

1. Introduction of Panel
2. Overview of Sponsored Insurance Programs
3. National Association of Social Workers Program
4. American Booksellers Association Program
5. ASAE Insurance Company Program
6. Questions & Answers

OVERVIEW OF SPONSORED INSURANCE PROGRAMS

Michael Murphy
Senior Managing Director
Beecher Carlson
OVERVIEW OF SPONSORED INSURANCE PROGRAMS

I. Significant Innovation In Sponsored Insurance Programs*
   - Arising From “Alternative Market” Technology
     - Corporations developed self-insurance devices into the “Alternative Market”
     - Radically changing landscape of sponsored insurance programs
       - From fully insured programs to self-insured programs
   - Definition of CAPTIVE INSURANCE COMPANY
     A captive is an insurance company created under special enabling laws that self-insures the risk of the owners, related to and/or affiliated entities.
     * ALL INSURANCE PRODUCTS EXCEPT LIFE, HEALTH, DISABILITY AND RETIREMENT PLANS

OVERVIEW OF SPONSORED INSURANCE PROGRAMS

- In the late 60’s there were less than 100 captives
  - Today there are over 5,500 captives
- In the late 60’s we only had one captive domicile: Bermuda
  - There are now 28 domiciles in the U.S.
  - And over 75 domiciles globally
- The insurance industry that saw captives as a threat are now –
  - Partnering with associations to form captives
- Definition Of Association Captive Insurance Company
  A type of group captive that is owned on behalf of or directly by members of a trade or industry association organized to self-insure part of the homogenous risk of its members in order to achieve coverage and cost enhancements.
II. Why Association Sponsored Insurance Programs?

- Value Proposition to Association Members
  - Lower cost
  - Broader coverage
  - Stabilize availability of insurance

- Value Proposition to Association
  - Recruitment and maintenance tool for membership
    - Enhanced association membership value to members
    - Services offered by association
  - Significantly increases association revenue
  - Greater control
  - Creation of a new asset base for association

OVERVIEW OF SPONSORED INSURANCE PROGRAMS

II. Why Association Sponsored Insurance Programs?

- VALUE PROPOSITION TO PRODUCER OWNER
  - Ties producer to the association
  - Provides greater control
  - “Skin in the game”
  - Access new markets

- DEFINITION OF PRODUCER
  Agent, broker, or licensed association that contracts with an insurance company in order to market and own commission revenue from the sale of the companies policies.
III. Types Of Sponsored Insurance Programs

1. Fully Insured Producer Owned And Controlled Program

- Most commonly encountered sponsored plan
- Producer obtains endorsement in exchange for association royalty
  - Usually 2-3% of premium
  - Association exerts limited control
- Array of functions that producer may perform
  - Contracts with insurance company in order to sell policies
  - Sells directly to insureds or indirectly through sub-producers
  - Contracts with target association in exchange for endorsement
  - Underwrites policies
  - Issues policies

OVERVIEW OF SPONSORED INSURANCE PROGRAMS

- Quotes policies
- Intermediary between policyholders and insurance company
- Binds coverage
- Collects premium
- Issues policies
- Services policies
- Renews policies
- Producer owns and manages the program “book”

- DEFINITION OF “BOOK OF BUSINESS”
  An aggregation of an insurance producers insurance policyholders and renewals that are owned by the insurance producer
  - If program is successful, producer may not need endorsement
OVERVIEW OF SPONSORED INSURANCE PROGRAMS

2. Fully Insured Producer/Association Partnership
   - Shared program ownership
   - Shared duties listed above

3. Association Captive Program
   - Producer Owned
   - Association Owned
   - Producer/Association Shared Ownership
ASSOCIATION CAPTIVE INSURANCE CO. FLOW OF FUNDS

**ASSOCIATION MEMBER INSUREDs**

**LOCAL PRODUCERS**

**PROGRAM MANAGER**

**ASSOCIATION DIRECT MARKETING**

**“A” RATED POLICY INSURING COMPANY**

**“FRONTING COMPANY”**

**ASSOCIATION OWNED CAPTIVE INS. CO**

FLOW OF FUNDS TO CAPTIVE*

1. Premium $3,000,000
2. Producer (25% x 1) -750,000
3. Fronting (3% x 1) -90,000
4. Reinsurance (10% x 1) -300,000
5. Funds to Captive $1,860,000
6. Losses & L.A.E. (40% x 1) -1,200,000
7. Other Providers -110,000
8. Captive Funds Retained $550,000

* Simple aggregate excess of loss reinsurance example.

NATIONAL ASSOCIATION OF SOCIAL WORKERS PROGRAM

Tony Benedetto
Executive Vice President, Assurance Services Inc.
National Association of Social Workers
NATIONAL ASSOCIATION OF SOCIAL WORKERS PROGRAM

NASW Assurance Services

- Wholly owned corporation of the National Association of Social Workers (NASW)
- Formerly the NASW Insurance Trust established in 1967
- Recently restructured as for-profit corporation NASW Assurance Services, Incorporated
- Charged with oversight and administration for insurance plans and insurance-related services for NASW members

Current Products Offered

- Professional liability (malpractice) insurance for social workers, corporations, agencies and students. Currently over 67,000 insured.
- Group life, long-term disability, hospital daily cash benefit and personal accident insurance for members and their dependents. Currently over 19,000 insured.
- Risk Management programs are offered to the NASW chapters, universities and social service agencies for members promoting best practices.
NATIONAL ASSOCIATION OF SOCIAL WORKERS PROGRAM

Why A Captive?

- Professional Liability Insurance Program is a “flagship” product and of high perceived value to NASW members.
- Due to the construct of the program NASW was in a subordinate position with virtually no ownership.
- Although 67,000 members participated generating over $13.5 million in annual premium, NASW received very little financial income.

There had to be a better way…

NATIONAL ASSOCIATION OF SOCIAL WORKERS PROGRAM

What the Captive Provided to NASW

- Provided for ownership and control of the “flagship” product.
- Allowed NASW to participate in the “manufacturing” and “selling” of the PLI product.
- Provided for input into decisions on future product issues such as premium increases.
- Permitted NASW to share in the product profits.
How To Get Going

- Informally
  - Talk with the experts
  - Attend conferences
  - Build your network

- Formally
  - Develop a consensus at the Board level
  - Approve a research budget
  - Build key decision points for the organization

Other Intangibles are Important

Know your organization:

- Who are the influencers and decision-makers?
- What are your organizations sensitivities?
- What is your organizations tolerance for risk?
Entering Into a Formal Process

- Hired an expert to develop the feasibility study.
- Included the existing producer and Board Member to be on the decision team.
- Understood the imperatives early on:
  - Willingness to take financial risk
  - Transparency to members
  - Investing in what benefits members

The Result

- Hired Beecher Carlson to lead the team on feasibility and implementation.
- Developed a Reinsurance Captive taking a 20% quota share of the premium.
- Kept the producer in place so the member experience is consistent.
- Kept the fronting carrier in place so the member experience is consistent.
AMERICAN BOOKSELLERS ASSOCIATION PROGRAM

Avin Mark Domnitz
Chief Executive Officer
American Booksellers Association

I. Overview of the Association

- Established in 1900
- 501(c)6 trade association
- 2200 members nationwide
- Overwhelmingly small (under $750,000) independent businesses
- Education, advocacy, first amendment, free expression, national marketing program, etc.
- National Internet program plus trade website (www.bookweb.org)
AMERICAN BOOKSELLERS ASSOCIATION PROGRAM

II. Description of ABA’s Libris captive insurance company

- Insuring ABA Members
  - Property, Casualty & Workers’ Compensation are mostly self-insured

- The following lines are available on fully insured basis:
  - Auto
  - D&O
  - Employment Practices Liability
  - Umbrella

LIBRIS CAPTIVE PROFILE

- Annual Premiums
  - $1.4 M Property/Casualty
  - $530K Workers’ Compensation

- 518 Policyholders and over 750 Policies

- 10-year historical loss ratio of 38%

- Average Premium for Property/Casualty Policy is $2,600

- Average Premium for Workers’ Compensation Policy is $2,615

- Retention Rate (excluding out of business stores) is 90%
  - Insurance industry average retention is estimated at 70%
III. Development Of Libris Insurance Company

- In late 80’s, LIBRIS was one of a few national associations
  - Without a sponsored insurance program
  - Probably because of benign nature of booksellers exposure to loss
    - Booksellers are among insurers most desirable policyholders
    - Scores of insurance companies compete for booksellers
    - Difficult to find a competitive hook for a “sponsored program”
- Late 80’s, ABA hired a consultant to design new program

IV. Critical Design Components Of Libris Program

- Opportunity to innovate and design our own program
  - Started with a white board
  - Designed new program from the ground up
- Unique design concept features
  - ABA to create and own the book of business
  - Ultimate goal was to own a captive insurance company
    - Initially we had no premium
    - Needed to reach premium and loss ratio critical mass
    - Late 80’s, minimum critical mass was $1 million in premium, with developed loss ratio of below 40%
AMERICAN BOOKSELLERS ASSOCIATION PROGRAM

- Recruit a “contract producer” who would not own our book
- DEFINITION OF A CONTRACT PRODUCER – an insurance producer contracted by the association when the association, not the producer, own the book of business. The producer receives commission revenue for marketing the program
- Idea was to build a vertical production from system
- ABA’s ownership protected by contract with producer
  - Ownership of book and policy renewals belong to association
  - Ownership of all books and records belong to association
  - Non-compete with “contract producer”
  - Confidentiality agreement with “contract producer”

V. First step: Implement a fully insured program

- Create and build a book of premium volume
- Along with design consultant recruit other partners
  - A competitive insurance company
  - A contract producer
- RFP to select a “contract producer” who would:
  - Market the program to members
  - Assist in selecting an insurance company (build the program with our endorsement)
  - Be willing to work on a non-ownership commission basis
  - Select and contract with producer
VI. Process of building the book of business

- RFP process to find insurance company
- Pre-nuptial agreement with insurance company
  - If it wasn't willing to participate in the future with the captive, we would have to find another company
- Early challenges in our pioneering effort
  - Only a few insurance companies were willing to share:
    - Underwriting profits
    - Investment income
    - Write small market program business accounts
    - Participate with a captive
  - Our association attorney advised "he had never seen such innovation"

VII. Reaching Critical Mass

- 10 years later we met goals of:
  - $1m in premium
  - With loss ratios below 40%
- Several insurance companies willing to partner in captive endeavor
- Selected fireman's fund
- Interviewed captive domiciles and selected Grand Cayman
  - Off-shore domiciles were more favorable
    - Associations could own captive on behalf of its members
    - Rather than cumbersome group captive ownership
  - Today all major U.S. captive domiciles permit third-party ownership
- Contract producer continued for several years
  - As program began to grow, there were severe I.T. limitations
- Producer role goes in-house via cost plus dedicated staff
VIII. Membership Advantages

LIBRIS brings value to the ABA membership by:

- ABA ownership and control
- Affordable insurance premiums
- Dividends paid in most years
- Industry experienced claims adjusters
- Use of ABA programs – shipping, credit card, email service
- Risk management and loss control assistance
- Personal relationships with members
- Personal visits to bookstores
- Association advocate – supports ABFFE
- Assistance with insurance provisions in leases and contracts

IX. Summarizing Challenges And Opportunities

- Greatest challenge: the highly desirable nature of our risk
  - Stiff competition from national and regional insurance companies

- Staying competitive in insurance market cycles
  - Not enough premium in program to influence rate and form filings
    - Obstructs our ability to tailor rate and coverages
    - Not always competitive with price leaders that come and go
ASAE Insurance Company (AIC)

Dixie Arthur
President
ASAE Services, Inc.

ASAE INSURANCE COMPANY (AIC)

- Licensed in the District of Columbia as a “segregated cell” captive company
- **Definition of a Segregated Cell Captive** - A captive that segregates multiple participants risks into legally protected cells from the liabilities of others, by isolating individual participant cells through enabling legislation, reinsurance, and fronting arrangements without having to form separate captive facilities.
- AIC as the owner/sponsor may establish separate risk units (cells) for other organizations to use for a fee
- Each cell is completely legally separate and distinct from any other cell
- Loss experience amongst participants are not commingled – each cell is its own entity
- Analogy: Single family detached home versus a condominium
**ASAE Insurance Company Cell Structure**

<table>
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<th>CAPITAL</th>
<th>LIMITS</th>
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<tr>
<td>$250K</td>
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<td></td>
</tr>
<tr>
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<td></td>
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<tr>
<td>$1.5M</td>
<td></td>
</tr>
<tr>
<td>$2M</td>
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</tbody>
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- **Cell 1**: ASAE Core Non Risk Bearing
- **Cell 2**: DEF Assoc. Minimum Capital Required
- **Cell 3**: XYZ Assoc. Minimum Capital Required

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**ASAE INSURANCE COMPANY (AIC)**

**Why Domicile in the District of Columbia?**

- Strongest enabling cell law in the industry
- DC Captive Act of 2000 is designed to attract association captives
- Favorable size and longevity requirements
- Lower initial capitalization requirements than other jurisdictions
- Allows groups to reinsure group health programs
**Benefits to ASAE & The Center Members**

*Captive ideal for most associations because it overcomes two major hurdles*

1. Lower capital requirements than stand alone

2. Permits lower premium volumes

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**Benefits to ASAE & The Center Members**

- Provides a vehicle for associations with sponsored insurance programs to access captive operations through a “turnkey” facility

- AIC selects and contracts with top quality service providers (captive management, legal, actuarial, and audit) making those services available through a service agreement

- Provides knowledge and resources most associations don’t have on their own in a cost-effective manner
ASAE INSURANCE COMPANY (AIC)

Benefits to ASAE & The Center Members
Specific benefits to participating associations

- Significant lower start-up costs
- Significant lower ongoing management costs
- Reduced start-up time
- Increases access to reinsurance markets, policy issuing (fronting) markets, and service providers
- Can provide significantly lower capitalization costs

Questions & Answers

To ask a live question press *1 on your touch-tone phone.

or

Type your question into the “Questions” box located on the lower left side of your screen.