

# DRP Cell Captives

**RISK**



# Insurance Mega-trends

- *The big one...the continual movement by organizations into the alternative risk transfer (ART) market, namely through the use of captives, self insurance, risk retention groups and large deductibles.*

Dr. Robert Hartwig, President, Insurance Information Institute  
“The End of Insurance?” ROUGH NOTES, Mar 30, 2009

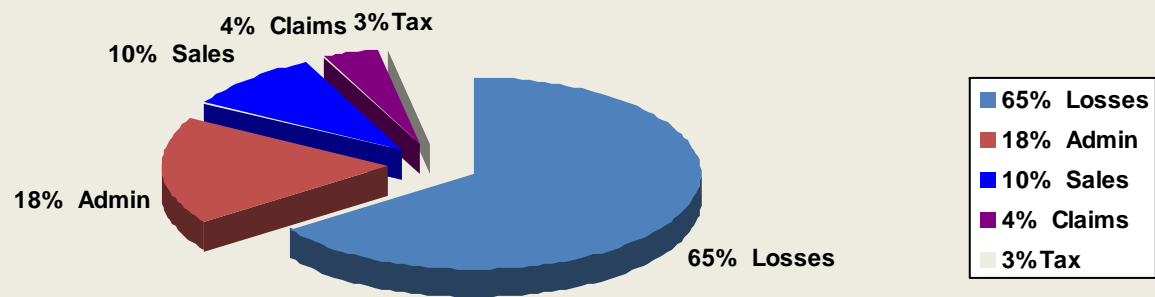
# Large Deductible Policy

- For Work Comp, Gen Liab, Auto Liab
- Opportunity to share in your underwriting profits and your investment income on loss reserves
- Reduces admin costs on deductible portion
- Increases control of claims, litigation and subrogation
- Avoids self-insurance compliance issues

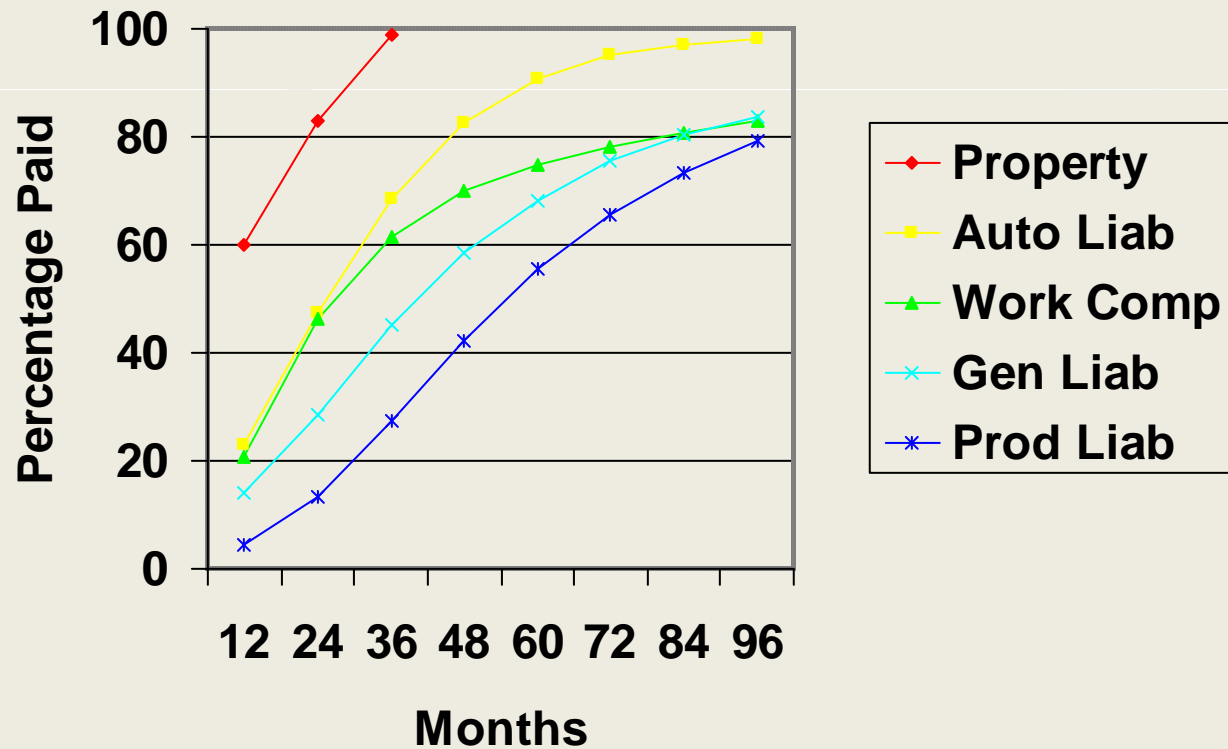
# Deductible Reimbursement Policy

- Tax deferred interest on loss fund
- Removes liabilities from balance sheet
- Potential for wealth accumulation for principal owners
- Cash loss fund replaces costly bank ILOCs
- Potential for tax deduction for Deductible Reimbursement Policy premiums

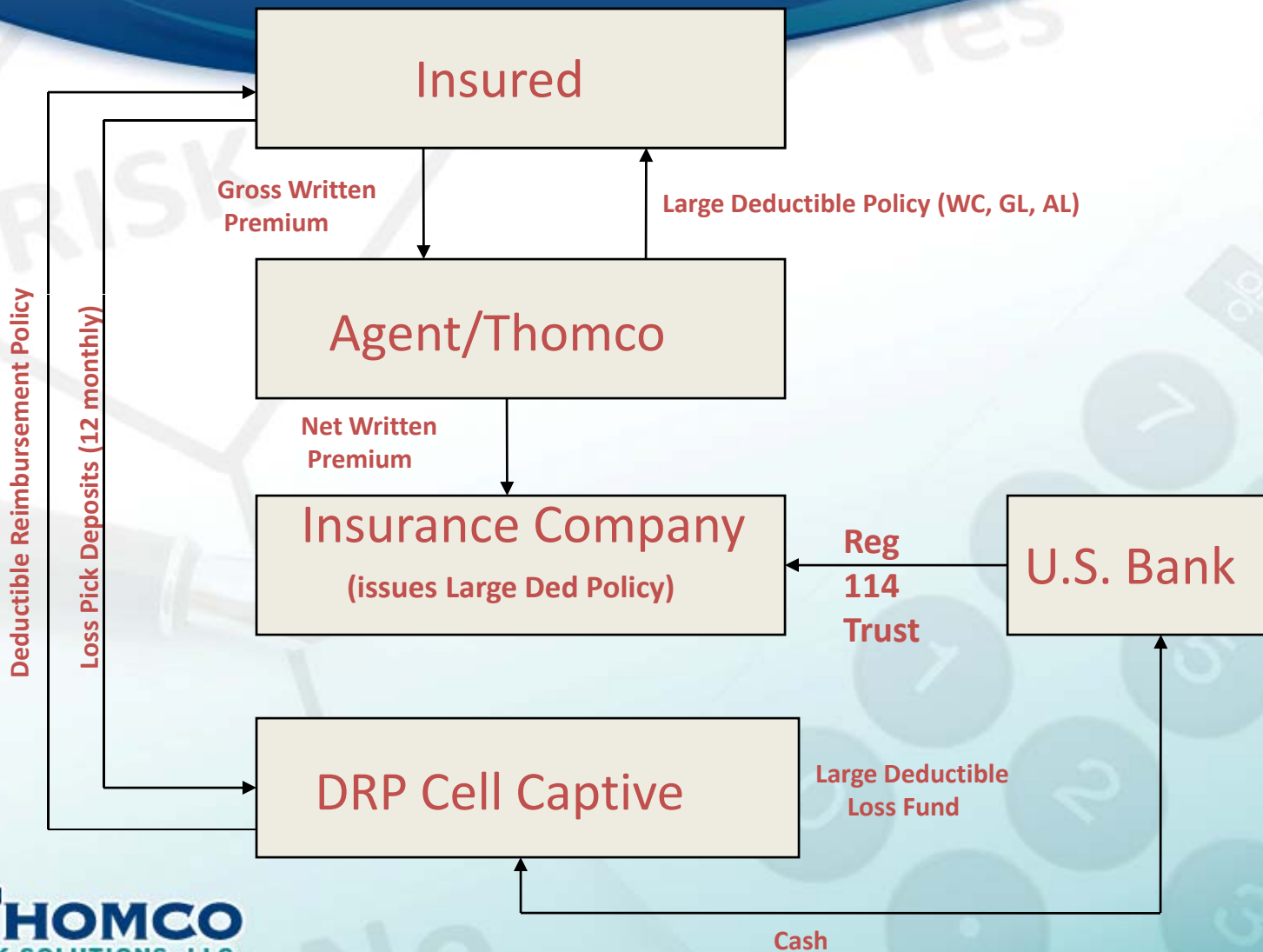
# Typical Premium Allocation



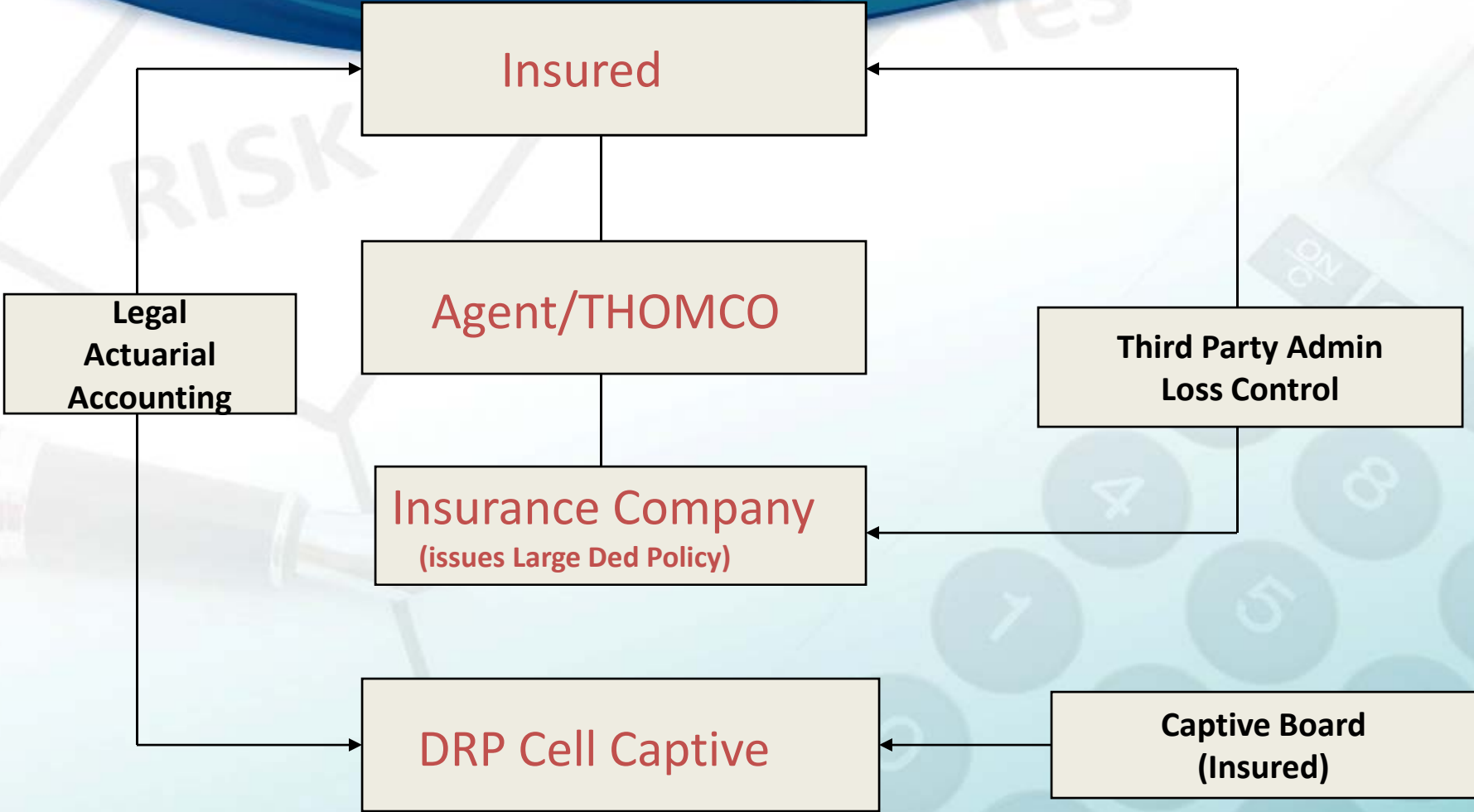
# Loss Payout Patterns



# DRP Cell Captive Cash Flow



# DRP Cell Captive Services

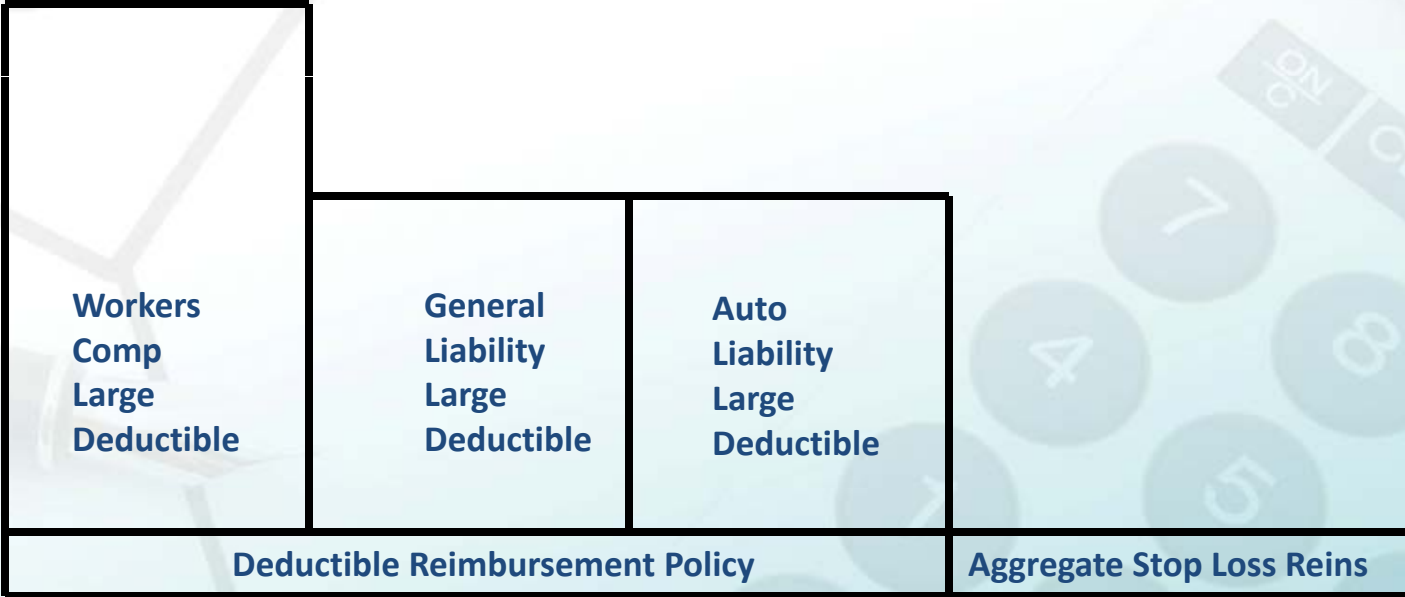


# DRP Cell Captive Structure 1

Statutory

\$1,000,000

\$100,000  
Large  
Deductible



# DRP Cell Captive Structure 2

Statutory

\$1,000,000

\$300,000  
Large  
Deductible

Workers  
Comp  
Large  
Deductible

General  
Liability  
Large  
Deductible

Auto  
Liability  
Large  
Deductible

Excess of Loss Reinsurance (internal or external)

Deductible Reimbursement Policy

Aggregate Stop Loss Reins

# DRP Cell Captive Structure 3

Statutory

\$1,000,000

Workers  
Comp  
Large  
Deductible

General  
Liability  
Large  
Deductible

Auto  
Liability  
Large  
Deductible

\$300,000  
Large  
Deductible

Deductible Reimbursement Policy

Aggregate Stop Loss Reins

# R-Pool Treaty

- **Rev Rul 2002-89: 50% unrelated risk “safe harbor”**
- **Insured cedes to R-Pool their WC loss pick for the highly predictable primary \$100,000 “frequency layer”**
- **R-Pool retro-cedes to Insured’s DRP Cell Captive an equivalent amount of POOLED WC premiums**
- **R-Pool WC premium is over 50% of DRP Cell Captive premiums, so...**
- **ALL DRP Cell Captive premiums are deductible**
- **Insured’s max treaty payout is 125% of ceded premiums**
- **FASB 113: 10% chance of 10% loss qualifies as insurance**

# Internal Revenue Code Section 831b

- **NO INCOME TAX (Federal or State) on underwriting profits from premium income up to \$1.2 million each year**
- **Underwriting profits accumulate TAX FREE**
- **Dividends to the Business Owners are taxed at the 15% Qualified Dividends tax rate instead of the 35% Ordinary Income tax rate**

# Want to “right size” your premiums?

- PROBLEM: Your annual premiums always exceed your annual losses so you are ***subsidizing*** others
- PROBLEM: Your annual losses always exceed your annual premiums so you will be ***cancelled***
- SOLUTION: Control your Cost of Risk and “***right size***” your premiums

# Complimentary Loss Cost Analysis

Please send us:

- Most Recent Financial Statement
- Copies of Current Policies
- 5 Year Hard Copy Carrier Loss Runs (plus current policy year)



**RISK**

# THOMCO Risk Solutions, LLC

3380 Chastain Meadows Parkway, Suite 100  
Kennesaw, GA 30144

**Contact:**

**Omar R. Cordial, CPCU, A Re, Managing Director**

**DIRECT: 770-552-4178**

**EMAIL: [Ocordial@thomcoins.com](mailto:Ocordial@thomcoins.com)**

