Case Study
Single-Parent Captive Featuring AEX

A company has workers' compensation (WC) losses on its balance sheet, which cannot be deducted until claims are paid. Artex proposes a captive solution using its proprietary AEX program. Result: The company transfers $16 million of losses, solves a risk management problem, improves its balance sheet and increases cash flow.

The company operates several entertainment and service businesses. The company's WC program has a $350,000 per occurrence deductible, with annual losses within the retention of $9 million. The company also has a $16 million loss reserve on its balance sheet—a liability that cannot be expensed until claims are paid.

Risk Management Objectives

- Form a captive insurance company.
- Annually transfer WC risk within the deductible to the captive.
- Move WC loss reserves to the captive.
- Transfer legal expense risks to the captive, to smooth out this expense.
- Transfer various enterprise risks to the captive, to properly account and reserve for these risks.

By doing this, the company will reduce balance sheet liabilities and increase shareholder distributions. All this requires a captive, but the company's entity structure didn't permit this.

The company's brokers approached Artex for a solution. Artex analyzed the opportunity and determined that the Artex Exchange (AEX) would permit a captive to be formed. AEX, which has operated successfully since 2012, is an Artex-owned facility that allows businesses to pool the frequency layer ($0–$100,000 per occurrence) of WC risks.

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Results to the Company

- Deduct $16 million in premiums paid to its captive in 2016, and over $10M annually thereafter. The captive insurance lines can be modified and grow over time.
- Smooth out its WC losses and legal expense losses.
- Formed a captive using Artex when others said it couldn't be done. The captive solves several risk management issues for the company.
- As surplus builds in the captive, the captive can provide some or all of the collateral for the LOC required by the excess carrier.
- No change to the company's WC program.

AEX Requirements

- Participate in a large deductible or self-insured WC program, with a deductible of at least $100,000 per occurrence.
- Have at least $400,000 (on average) annual WC losses.
- Be financially strong, and commit to risk and loss management.
- Be willing to form a captive (AEX complements the captive program).
- AEX is an overlay to the existing high deductible and doesn't change the large deductible program. The broker, TPA, excess carrier and all other aspects of the program remain unchanged.

If you would like to learn more about captives or AEX, please contact:

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The Artex Advantage

Artex provides a full range of alternative risk management solutions, customized for our clients' individual challenges and opportunities. Powered by independent thought and an innovative approach, we empower our clients and partners to make educated risk management decisions with confidence.

Operating in over 30 domiciles and in more than 15 offices internationally, we have the proven capacity to supply any alternative risk need. Artex is a solutions company, and we invite you to learn more about our breadth of services and depth of talent. There is an upside to risk. Let's work together to find the right solution for your organization.