

PMA CAPTIVES



**PROVIDING
THE FULL
RANGE OF
CAPTIVE
MANAGEMENT
ELEMENTS WITH
EXCEPTIONAL
SERVICE.**

WHETHER THE PREFERENCE IS TO OWN OR RENT A CAPTIVE FACILITY,

The PMA Insurance Group provides a captive

product that is **easy for you to work with,**

offers exceptional services and provides an

opportunity to participate in the **underwriting**

profit and derived investment income.



WE MAKE IT SIMPLE FOR YOU AND YOUR CLIENTS TO ENTER INTO AND CONDUCT CAPTIVE ARRANGEMENTS.

With PMA, your clients can go to one source for all the services they need. We provide local service capabilities—claims, risk control and underwriting—and the reinsurance needed to protect your clients' assets. PMA offers its own reinsurance mechanism so there is no need to go to the open market for the placement.



PMA's team of financial, actuarial, underwriting, claims and risk control professionals work in collaboration with our clients in meeting their captive needs. Our team is **easily accessible and responsive**. PMA's **flexible structure** makes the transition from traditional insurance to a captive arrangement that much easier.

OUR CAPTIVE UNIT IS PART OF PMA RISK MANAGEMENT SERVICES (RMS), our segment that addresses the risk

management needs of larger accounts with specialized insurance needs. PMA Risk Management Services provides ART (Alternative Risk Transfer) products and services, whether your appetite is modest risk assumption, or increasing risk assumption.

FAST FACTS ON PMA AND OUR CAPTIVE CAPABILITIES:

- We are rated "A-" Excellent by A.M. Best.
- PMAIG* is licensed in all 50 states and in the District of Columbia and Puerto Rico.
- We provide coverage in captives for the following lines of business: workers' compensation, general liability and commercial auto liability.
- We offer superior claims and risk control services.
- PMA is a seasoned captive provider, writing captives for over 16 years and currently managing in excess of \$40 million in captive premium.

*PMAIG is The PMA Insurance Group's lead insurance company, Pennsylvania Manufacturers' Association Insurance Company.

PMA: RISK MANAGEMENT SERVICES

As clients increase their risk assumption, they need to intensify the management and control of their loss costs to protect their organization's assets and financial stability. The key is to appropriately balance the management of loss costs with increased risk assumption—the more risk you assume, the more cost containment capability you require as a balance.

PMA is an outstanding partner to help achieve this equilibrium. Our risk control, claims and managed care services are performance-oriented—you can be assured of a high level of responsiveness, a proactive approach and service from a local office from people who know your company and its challenges and results.

Our goal is to improve clients' financial results and provide complete business solutions by offering sophisticated programs, products and services designed specifically for a company's individual needs.



RENT-A-CAPTIVE DOMICILES

Clients seeking a captive product from PMA can select between two domiciles:

- **Bermuda**—the leading captive domicile in the world. Bermuda combines a sophisticated regulatory structure with experienced insurance professionals.
- **Cayman Islands**—a segregated cell structure available in one of the fastest growing captive domiciles.

PMA CAPTIVE OPERATIONS:

Another real advantage of PMA is our ability to offer a single access point for your needs in the formation of a captive. We provide an efficient, streamlined and simplified process by offering claims, risk control and reinsurance support for each captive.

Our service components include:

UNDERWRITING

POLICY ADMINISTRATION

CLAIMS SERVICES

Clients can count on PMA Management Corp., our third-party administrator, for effective response and control of their losses, which ultimately impacts the cost of insurance. Our expert claims services are designed to minimize overall exposures and control claim costs.

Claims services include:

- **INVESTIGATION**—Detailed, thorough investigation of all claims
- **QUALITY ASSURANCE**—Managed case loads; ongoing review of claims files
- **LITIGATION MANAGEMENT**—Cost-effective and aggressive management of all litigated claims
- **THREE-POINT CONTACT**—PMA initiates substantive contact among injured worker, employer and medical provider within 24 hours of accident receipt report.

CAPTIVE MANAGEMENT

- Investing the Funds
- Accounting of Cash Flow

MANAGED CARE SERVICES

Our Medical Cost Containment Program is designed to manage costs, provide access to quality healthcare to injured workers and produce satisfaction among injured employees.

Our programs include:

- Medical Case Management
- Preferred Provider Network
- Medical Bill Review Team
- Pharmacy Program
- Return-to-Work Program
- Out of Network Program

RISK CONTROL

Our Risk Control Services can play an important role in mitigating losses and improving your client's bottom line.

Our risk control services include:

- Risk Management Assessment
- Safety Programs
- Training Programs

RISK MANAGEMENT INFORMATION SYSTEMS

- PMA CINCH® is our comprehensive web-based Risk Management Information System
- Clients have a fast and simple method for extracting and analyzing loss information for their risk management information needs from this flexible, online system.

ACTUARIAL

- Loss Trend Evaluation
- Development of expected loss projections as well as aggregate attachment points
- Dividend Calculation

FINANCE

- Collateral Review
- Calculation of potential capital position
- Review of clients' financial position in regard to feasibility of captive

REINSURANCE

- PMA provides access to its own reinsurance mechanism so there is no need to go to the market for the reinsurance placement.
- By utilizing our treaty, we remove the sometimes time consuming as well as costly process of reinsurance placement.

LEGAL CONTRACTS

- Development of legal contracts to support captive formation, including:
 - Reinsurance contracts
 - Shareholder agreement
 - Trust fund (if applicable)
 - Letter of credit wording



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CAPTIVE SUBMISSION REQUIREMENTS

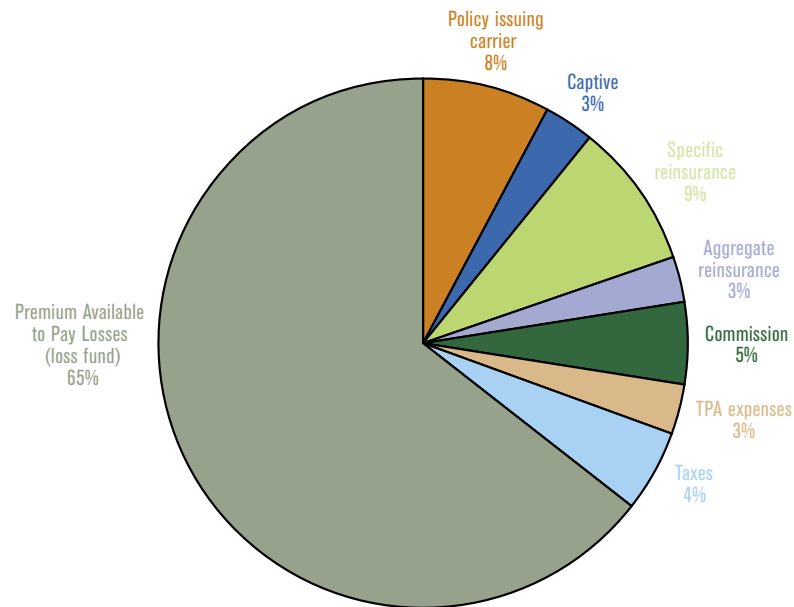
CAPTIVE SUBMISSION
REQUIREMENTS

TO SUBMIT A REQUEST
FOR A CAPTIVE ARRANGEMENT TO PMA,
WE REQUIRE THE FOLLOWING INFORMATION:

- Receipt of submission 90 days prior to renewal date
- Prior years' complete audited financial statements
- Last five years of loss history and claim counts valued within the past three months
- Verified (audited) exposure base information for past five years
- Estimated renewal exposure information
- Large loss explanations and claim detail
- Summary of expiring program details, parameters, and coverage requirements
- Independent actuarial study (if available)

PMA CAPTIVES

ILLUSTRATION: HOW A CAPTIVE OPERATES



SCENARIO:

A candidate currently pays workers' compensation premium of \$1 million on a guaranteed-cost basis. Losses during the prior five years have been averaging 40% or less. The account is seeking a way to improve cash flow and generate investment income from the premium. To accomplish this, the insured is considering a rent-a-captive for their workers' compensation exposure.

The following provides an example of how a rent-a-captive could operate for this account.

Standard Premium = \$1 million

Expenses (as a percent of premium)

Policy issuing carrier = 8%

Captive = 3%

Specific reinsurance = 9%

Aggregate reinsurance = 3%

Commission = 5% (paid to broker)

TPA expenses = 3% (claims handling)

Taxes = 4% (adjusted to actual)

Total Expenses = 35% or \$350,000

Premium Available to Pay Losses and Alae (loss fund) = \$650,000

Aggregate Attachment (captive's total claims liability for the year) = 100% of premium or \$1 million

ESTABLISHING THE CAPTIVE

- The \$1 million standard premium will be paid in ten equal installments, with a 25% deposit.
- Expenses are remitted and the remaining balance of \$650,000 (loss fund) is ceded to the captive facility.
- An investment account is established to enable the account to benefit from investment income for premium set aside to pay losses.
- An on-shore loss escrow account will be established equal to 2.5 months of average paid claims.

HOW LOSSES ARE FUNDED WITH A RENT-A-CAPTIVE

	Specific excess of loss reinsurance protects insured for any occurrence in excess of the \$350,000 retention.	
Per occurrence of \$350,000 funded by captive	Captive's loss fund = \$650,000	Unfunded liability = \$350,000 Funded by Letter of Credit

Aggregate reinsurance begins paying if total losses within the retention exceed \$1,000,000

\$1,000,000 aggregate attachment or 100%

HOW LOSSES ARE PAID AND PROFIT IS GENERATED WITH A RENT-A-CAPTIVE:

- The loss fund (premium less expenses) equals \$650,000. These funds are ceded to the captive as well as invested on the insured's behalf.
- Specific excess reinsurance provides protection for catastrophic losses of the captive by paying the claims of any one occurrence in excess of the \$350,000 retention.
- Aggregate reinsurance provides protection for unpredicted frequency of loss up to the aggregate attachment point (in this case \$1 million).
- All claims within the retention/deductible are paid from the loss fund ceded to the captive facility. In this case, the fund equals \$650,000. However, the insured's responsibility does not end until aggregate loss fund of the program is exhausted. In this case, the aggregate loss fund is \$1 million. Any occurrence in excess of the \$350,000 retention is covered through a reinsurance agreement with an excess carrier. Typically, this arrangement is secured through PMA.
- The unfunded liability or "gap" exposure, which is the difference between the loss fund of \$650,000 and the aggregate attachment of \$1 million, is the potential collateral requirement. In this scenario, the unfunded liability is \$350,000. The captive is responsible for paying all claims less than or equal to the retention up to the aggregate attachment. Once that responsibility is exhausted, the aggregate reinsurance pays for all claims subject to the policy limits.
- At the end of the specified period (usually 24 months after inception), a calculation is made to determine if a dividend should be paid. Profits are those funds left over after ultimate losses are paid plus investment income on reserves.

PMA CAPTIVES

HOW UNDERWRITING PROFIT AND INVESTMENT INCOME IS GENERATED WITH A RENT-A-CAPTIVE

Underwriting Profit and Investment Income Illustration
(Assuming a 40% Loss Ratio)

Investment Calculation

Premium		\$1,000,000
Expenses	35.00%	\$350,000
Loss Fund		\$650,000
Aggregate Unfunded Liability	100.00%	\$1,000,000
		\$350,000
Loss Ratio	40.00%	\$400,000
Interest Rate	6.00%	

Year	Pay Out	Paid Claims	Funds Available	Interest Income*
1	26.00%	\$104,000.00	\$546,000.00	\$32,760.00
2	26.00%	\$104,000.00	\$442,000.00	\$26,520.00
3	15.00%	\$60,000.00	\$382,000.00	\$22,920.00
4	15.00%	\$60,000.00	\$322,000.00	\$19,320.00
5	10.00%	\$40,000.00	\$282,000.00	\$16,920.00
6	8.00%	\$32,000.00	\$250,000.00	\$15,000.00
Total	100.00%	\$400,000.00		\$133,440.00

Underwriting Profit		\$250,000
Investment Income	6th year	\$133,440
Total Income		\$383,440

*This illustration does not include compounding

- Underwriting Profit = Loss fund less the actual losses.
- Maximum / Upswing = Expenses (\$350,000) + Ultimate Loss Responsibility (\$1 million) = \$1,350,000 or a 135% max (less Investment Income)

PMA CAPTIVES

REASONS TO FORM A CAPTIVE

- Reduced impact of market fluctuations within the traditional insurance system relative to pricing, coverage and capacity
- A need for increased capacity and flexibility
- Increased control and influence over financial risk and total insurance program cost
- Increased capacity to determine terms and conditions for coverage
- Direct access to reinsurance markets
- Potential to share in any underwriting profit and investment income
- Ability to control claims utilizing Third-Party Administration (TPA)

CAPTIVE
ARRANGEMENTS

RISK APPETITE

FOR CAPTIVES*

TARGETED CLASSES OF BUSINESS FOR PMA CAPTIVES

ANY RISKS CONSIDERED FOR A CAPTIVE ARRANGEMENT MUST BE COMPATIBLE WITH PMA'S UNDERWRITING APPETITE.

Active captive classes include:

- Restaurants and Quick-Service Chains
- Contractors & Construction
- Colleges/Universities
- Non-Profit Organizations
- Hospitals/Nursing Homes (workers' compensation only)
- Manufacturing
- Retail/Wholesale Operations

CHARACTERISTICS OF CAPTIVE CLIENTS PREFERRED BY PMA:

We are looking for captive clients with the following traits:

- Strong Financials, along with a willingness to assume a significant portion of their insurance risk
- Seeking long-term stability with an insurance product
- Proactive safety infrastructure exists within their organizations
 - Key risk management and return-to-work initiatives established and maintained (or a strong desire to establish a functional and effective program)
 - Actively manages claim outcomes and uses formal loss investigation analysis to formulate a corporate safety plan

PMA CAPTIVE PREMIUM REQUIREMENTS**:

- Individual Rent-a-Captives – \$1 million or more in standard premium
- Group Rent-a-Captives – \$1.5 million or more in standard premium (average account premium size greater than \$75,000 per account)
- Client-Owned Captives – \$2 million or more in standard premium
- Minimum per occurrence retentions starting at \$250,000

*This document is intended to serve as a guideline for PMA's Captive. Contact your PMA Representative for detailed information.

**All lines.



RISK MANAGEMENT SERVICES AND NATIONAL ACCOUNTS

ADVANCING YOUR ORGANIZATION'S FINANCIAL PERFORMANCE

PMA Risk Management Services and National Accounts focuses on developing solutions to provide better financial outcomes for large companies with specialized insurance needs. Our goal is to advance your organization's financial performance by expertly designing, implementing and managing innovative programs for your specific risk management needs.

PMA has the capability to write business anywhere in the US. We deliver local claims and risk control services and have a national approach to underwriting.

PMA's Risk Management solutions are designed to:

- generate a strong financial return for your organization
- provide you with convenience of easy administration for your risk management program
- offer you 24/7 access to your loss information and ongoing accessibility to your service team
- improve your company's bottom line

PMA Risk Management Services and National Accounts offers you:

RISK-FINANCING PRODUCTS

PMA is focused on changing the risk management outcomes for clients. Our performance-driven approach is good for your businesses.

We offer products and risk-transfer options customized to meet clients' needs and risk appetite. Our programs include:

- Rent-a-Captives
- Client-Owned Captives
- Deductible Plans, including Pre-funded Options (cash collateral)
- Loss Multiplier Plans
- Retrospectively Rated Programs (incurred and paid loss, and premium deferred options available)
- SIR Programs
- Guaranteed Cost (includes the utilization of Loss Sensitive Dividend Plans)
- Multiple Lines Programs
- Group Programs

RISK MANAGEMENT SERVICES AND NATIONAL ACCOUNTS SERVICE PROGRAM

As you assume a greater proportion of your risk, a more aggressive approach to loss management is needed to control your costs and improve your financial performance. The key is to appropriately balance the management of loss costs with increased risk assumption—the more risk you assume, the more cost containment services you may require.

RISK MANAGEMENT

RISK CONTROL, CLAIMS SERVICES AND MEDICAL SAVINGS FOR RISK MANAGEMENT SERVICES AND NATIONAL ACCOUNTS

We make it easy for you to do business with us. We offer you local claims and risk control services through access to an established national network. Our aggregate service platform is available nationwide to respond to all aspects of your risk management service needs.

Our risk control, claims and managed care services, in conjunction with the PMA Account Management Process, are designed to effectively control your costs, improve your financial performance and make it easy to do business with us.

PMA ACCOUNT MANAGEMENT

Our disciplined *PMA Account Management* process is the cornerstone of PMA's service commitment to you. With PMA Account Management, your program will have the structure to ensure that it is being continually monitored and measured, with the goal of achieving optimal performance for you.

RISK MANAGEMENT SERVICES TEAM

As part of *PMA Account Management*, you will be aligned with a team who works collaboratively to improve your results and who is accountable for PMA's service delivery and performance.

Your *PMA Account Management* team consists of results-oriented PMA professionals:

- National Accounts Underwriting Executive
- Risk Control Professional
- Claims Service Manager
- Business Developer

PMA CLAIMS SERVICE MANAGER—AN ADDITIONAL LEVEL OF SERVICE

As a Risk Management Services client, you will be partnered with a *PMA Claims Service Manager (CSM)*. You'll have one easy point of contact that you can access for information, problem solving, support and service.

PMA'S STEWARDSHIP PROCESS

PMA is committed to helping you to improve your financial performance and results. As part of that commitment, as a PMA Risk Management Services client, you will have the opportunity to participate in Stewardship Reviews of your account that are intended to provide you with significant risk management information.

RISK MANAGEMENT INFORMATION SYSTEM

Clients will have access to a fast, easy way to run and extract risk management information online with PMA CINCH®. We designed PMA CINCH as the ultimate service tool for our clients, brokers and agents. Flexibility is built in, so your most specific business needs can be met.