



Strategies for Businesses with Large Deductibles

AEX is a Workers Compensation (WC) pooling program that allows companies to self-insure risk through a captive. AEX is designed for companies that have a high deductible WC program. The following three case studies illustrate a variety of issues that were addressed by utilizing AEX:

Case Study #1: Balance Sheet Transfer

Client has a large WC deductible, plus \$15 million dollars of open claims on its balance sheet. Client's goal is to move the WC risk from the balance sheet to the captive, and build cash reserves in order to accept higher deductibles in other lines of coverage, which can also be funded by the captive. However, Client did not meet the *risk distribution test* to form a captive.

Result:

Using AEX to provide unrelated risk, the client formed a captive and began insuring current year WC losses as well as old losses moved over from the parent company. This diversified the WC risk, and had a positive impact of \$3 million in year 1, with an estimated total benefit over 5 years of \$7 million. Client has also been successful in reducing its reliance on the commercial market.

Case Study #2: Reducing Risk

Client has a large deductible WC program, but is a middle market transportation company with significant annual variability in WC losses. Client isn't large enough to negotiate better WC rates. In addition, Client has other risks for which commercial insurance is not well priced.

Result:

Using AEX, Client formed a captive focused on a predictive layer of WC exposure (\$0-100k per occurrence) and funded other lines of coverage in the captive. This has allowed Client to reduce its WC risk, and create a fund within the captive to smooth out future losses in its other lines of insurance.





Case Study #3: Funding the Letter of Credit

Client was changing fronting carriers and was looking for a way to fund its WC deductible and letter of credit (LC) to the new carrier.

Result:

Using AEX, Client formed a captive and paid premium to the captive on a schedule that will fund the carrier LC. Over the past few years Client has successfully funded an increasing LC to the carrier through the captive rather than through the parent company. Doing so maintained cash flows similar to a guaranteed cost program. Client recently moved old reserves to the captive as additional premium.

Potential Candidates:

- › Participate in a high deductible WC program
- › Annual WC losses of at least \$500k
- › Be financially strong
- › Commit to risk and loss management
- › Be willing to form a captive if the client does not already have one



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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.