



Set Your Captive Free:

***21st Century Ideas to Make Your
Captive Work Harder***

Taylor Morrison

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Taylor Morrison, Inc.

- Land Development and Homebuilding
- Headquartered in Bradenton, Florida
- Residential construction:
 - Arizona
 - California
 - Colorado
 - Florida
 - Nevada
 - Texas
 - Ontario, Canada
- 6,000 homes in 2008
- ASP from \$275,000 to \$3,500,000
- Revenues +/- \$ 2B

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Beneva Indemnity Company

- **Wholly-Owned, Vermont Domiciled Pure Captive of Taylor Morrison, Inc.**
- **Incorporated and licensed in 2005**
- **Property and Casualty focus**
- **Named for the street in Sarasota, FL where first US office was located**

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Why Form a Captive?

- **Incentive to create came out of business needs**
 - **California subcontractor issues**
 - **Inadequate coverage available for additional insured status**
 - **Competitors were a step or two ahead on this issue**
 - **Restricted the pool of available trade partners**
 - **Had to keep trade partners “in the game”**
 - **Commercial insurance market changes**
 - **Homebuilders, developers were an undesirable class**
 - **Massive increases in retentions were being forced**
 - **Pricing was irrational**
 - **Certificate issues**

Why Form a Captive?

- **Other Considerations:**

- **Warranty Issues**
- **Years of SIR funding in accrual accounts**
- **Tax implications**
- **Foreign Parent**
- **Potential surety solution**
- **First party personal lines options**
- **Environmental exposures**

Due Diligence

- **What were our peer companies doing**
- **How would a captive sync with our risk management approach**
- **Is it efficient administratively**
- **Resource requirements**
- **Scalability**

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Feasibility

- Is it cost efficient
- Can we afford the friction
- Domicile location
 - Foreign or domestic
 - East or West
- Pro Forma business plan
- Impact on profitability and incentive compensation

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Implementation

- **Selecting Partners**

- Manager related to our Property Casualty partner
- Auditor local to domicile
- Law Firm local to domicile
- Fronting carrier
- TPA – linked to our traditional primary program

- **Selecting Domicile**

- Foreign parent disinterested
- Domestic choices
 - Homebuilding niche
 - Well versed
 - Proximity to HQ

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Implementation

- **Business needs dictated initial lines**
 - **Loss Portfolio Transfer (LPT)**
 - First policy issued -“reimbursement”
 - All prior years to include statutory periods
 - Mirrored SIR policies underlying
 - **GL Product/Completed Ops**
 - Construction Defect exposures
 - “Wrap” requirements for California trade partners
 - SIR programs from prior years with large accruals
 - **GL Premises Operations**
 - Followed the next year
 - LPT of all prior years with open claims
 - Go forward coverage
 - Smaller accruals and SIR’s but So What?

Unforeseen Benefits

- **July 2007 Merger of Taylor Woodrow with Morrison Homes**
 - Similar builder with UK parent and US operations
 - Similar insurance coverage history
 - High SIR's
 - Years of accruals
 - Inefficient asset utilization
 - Identical business issues in California
 - “Wrap” for trade partners
 - Potential for west to east “Ooze”

Merger Synergy

- **Duplicated LPT**
 - Included Prem Ops and Prod Comp Ops
 - All prior years within statutory periods
 - Relieved substantial balance sheet items
- **Easy assimilation of coverage**
 - Seamless to trade partners in overlapping markets
 - Administration of “wrap” was “wrapped”
 - Relieved operations of “insurance accounting”
 - Consistency of warranty versus consequential
 - Substantial savings

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Next Steps

- **Excess Property**
 - High excess over solid primary
 - Outstanding loss experience even in 2004 & 2005 Hurricane frenzy
 - CAT analysis identifies limit “comfort zone”
 - Pricing still unreasonable
- **First Property policy written by Beneva**
 - Easy regulatory approval
 - Broad form
 - Cost efficient

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Next Steps

- **Surety-**
 - Many obstacles
 - Ratings
 - Acceptance by Obligees
 - HUGE potential savings and efficiencies
- **Personal Lines**
 - Homeowners insurance for purchasers of our homes
- **Extended Warranty**
 - Home warranty products
 - Appliance packages

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Questions?