Success Stories of Captive Utilization

Moderator: Alice West, Safeway
Speakers: Tim Padovese, OMIC & Dan Kugler, Snap-On

Tuesday, March 11, 2014
1:15-2:15PM
Agenda

- Goals for Today’s Session
- Ophthalmic Mutual Insurance Company’s Story
- Snap-On’s Story
- Questions & Answers
Ophthalmic Mutual Insurance Company’s Story
How OMIC has become one of the most successful Risk Retention groups in Vermont and a model for other physician-owned carriers in the United States

- Presented by Tim Padovese
Historical Perspective

• Medical malpractice crisis during the mid 80’s
• CNA pulls out of the market – hundreds left stranded
• Physicians wanted more control
• Risk Retention Act (RRG) passed in 1986
  – Practice in same professions, or
  – Activities similar or related exposures
• OMIC formed in 1987
• Original insurance program established by the American Academy of Ophthalmology (AAO)
• Initial capital contribution from AAO repaid within 9 months

• New insureds/members paid two times annual premium 1\textsuperscript{st} year only with half paid to equity – surplus notes issued

• Initial challenges – feasibility study, capital, Board, Managing General Agency (MGA), transitioning to stand alone company
Organizational Snapshot

Ophthalmic Mutual Insurance Company ("OMIC")

American Academy of Ophthalmology (AAO) Sponsored

Physician Owners

- 4,470 Policyholders
- 43% Market Share

Board of Directors

- 12 Board Members
- 9 Committee Members
- 3 Annual Board Mtgs

OMIC Staff

- Underwriting
- Claims
- Risk Management
- Finance
- Sales & Marketing

One Location, 43 Employees

- Annual Premium: 2012 - $43M
- Surplus Growth to $148 M

Write in all 50 states (Eye Banks only in Wisconsin)

2007 Upgraded to ‘A’ (Excellent) rating by AM Best
Board of Directors

- Originally established with 17 members – reduced to 11 today
- All except Vermont attorney are ophthalmologist insureds
- Many experienced with leadership from American Academy of Ophthalmology/other associations
- Financial experience - most challenging
- Established term and age limits
Committees

• Board Committees:
  – Executive/Reinsurance/Compensation
  – Finance
  – Audit
  – Underwriting
  – Claims
  – Risk Management/Sales & Marketing

• Decisions ratified by Board
Audit Committee

• Audit Committee established

• Oversee:
  – Financial statements
  – Regulatory audits
  – Legal and regulatory compliance
  – Service provider contracts and performance
  – Conflicts of Interest
Executive Committee

• CEO Compensation/Performance Evaluation

• Board/Committee Structure and Composition, Compensation and Evaluation

• Board/CEO Succession

• Charters, Policies, Guidelines
Board/Committee Training

• Detailed Handbook: role, responsibilities, industry, litigation, logistics

• PIAA Leadership Boot Camp

• Towers Watson Medical Malpractice Program

• Prime Advisors Investment Training
In-House Legal & Management

- Oversight of Governance Processes
  - Board rotation and membership
  - Board/committee meetings

- Oversight of Compliance
  - Adherence to Articles, Bylaws, laws, NAIC guidelines

- Draft charters, policies, guidelines
  - Privacy/Security Policy
  - Document/Record Retention Policy
  - Disaster and Recovery Plan
Challenges

• Getting Board and Management to embrace “imposed” versus organic changes/requirements
• Why do we need an audit committee when the finance committee oversaw audit just fine?
• Why do we need Board to ratify service provider contracts?
• Why would we want to rotate our lead auditor?
• Why do we need a written record retention policy?
• Do we have to be told to be “ethical”?
• Making the tough calls on colleagues
Promoting OMIC Today

• Specific states identified/targeted
  – Direct Mail Campaigns
  – Groups identified
  – Programs through Ophthalmology State Societies

• Social Media used – Facebook, Twitter, LinkedIn

• Website Updated

• Blast email utilized

• Board & Committee Members employed
Lessons Learned

- Educate your Board
- Create culture where governance is seen as top priority and given due consideration, respect and resources
- Financial strength is paramount
- Exceed Surplus requirements
- Make the tough calls- you owe it to all of your policyholders
Founded on innovation in 1920
Unique brand strength
11,300 associates worldwide
2013 net sales: $3.1 billion
NYSE: SNA / S&P 500
$6.3B Market Cap
1.6% Cash Dividend Yield
- Dividends paid without interruption or reduction since 1939

“Five Do the Work of Fifty”
Snap-on Tradition

Selling Tools through Vans to Vehicle Technicians
Enhance the Franchise Network - Reach More Technicians

- Maintain strong franchisee health metrics
- Enhance coverage by filling routes more quickly
- Increase franchisee productivity
- Leverage unique van model (service, product and credit)
The Snap-on Risk Management team is comprised of 9 professionals with three core functions: **To Partner, To Protect and To Prosper.**

**To Partner**
We support our internal and external customers: Associates, Franchisees, Consumers, Shareholders.

**To Protect**
We identify and mitigate first- and third-party exposures, execute contractual risk transfer, and purchase insurance policies where compulsory and/or cost effective.

**To Prosper**
The programs we establish support our corporate vision and reflect our corporate values.
SecureCorp Companies were established to:

- Provide Insurance and Benefits programs to the franchisee
- To meet the franchise agreement insurance requirements
  - Truck, General Liability, and Inventory
- To enhance the franchise offering
  - **Cost, Coverage and Convenience** of the programs delivered—3c’s
  - Provide a single source for insurance and benefits tailored to the franchisee business
- Fully-Licensed to comply with insurance regulations to deliver the programs directly to the franchisee
SecureCorp Companies were established to:

• Provide programs to Snap-on Incorporated
• Reinsures SOI self insured reserves  Workers Comp and Product Liability
• Agency of record for contract bonds eliminating  outside commissions
• Licensed adjusting company for Corporate claims
• Resource for SOC and SOT verifying compliance and ensuring protection
Optional Programs:

- Life Insurance (Term Life Policy)
- Short Term Disability (Business Expenses)
- Major Medical Programs
- Retirement Plans (SEP)
- Personal Lines (Home, Auto, & Boat)
- Workers’ Compensation
- Umbrella Liability
Our Goal:

“…to provide assistance in protecting your business, so you can focus on growing your business.”
Captive Definition

“A Risk Financing Entity to Assist A Corporations Financial, Customer and Business Goals and Objectives”
Snap-on SecureCorp, Inc.
- Est. 11/1996
- Domicile: Wisconsin
- Insurance Agency
- Agent – US Franchisee Programs
- Licensed claim administrator US Franchisee

Snap-on SecureCorp Insurance Company Ltd.
- Est. 9/1997
- Domicile: Bermuda
- Reinsurance Company
  - US/Canada/Australia Franchisee Inventory Coverage (FIC)
  - Franchisee General Liability & Truck Programs
  - Snap-on Incorporated Self-Insured Retention
    - Worker’s Compensation
    - General Liability/Product Liability

SN SecureCorp Sales Ltd.
- Est. 11/2004
- Domicile: UK
- Insurance Agency
  - UK Franchisee Auto, General Liability, Inventory Coverage
- Licensed Claim administrator

SN SecureCorp Malta Limited
- Est. 6/2011
- Domicile: Malta
- Insurance Company (Issuing FIC Policy)
  - EU Franchisee Inventory Coverage