Restaurant Franchise Captive Program (RFCP)

Program Overview

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The Restaurant Franchise Captive Program ("RFCP") was formed by the founding members to gain better control of their insurance costs through diligent safety and loss prevention and by better managing claims. The program is designed to afford members the opportunity to have greater control of safety and claims services provided to their companies' individually and to collectively oversee the underwriting process, safety & loss prevention, claims management, and finances, through member committees and sub-committees.

The Program Committees include the Management Committee, Claim Committee and Safety Committee that meet quarterly. There is an RFCP Annual Meeting in May of each Program Year. Members have an opportunity to participate in underwriting profits but must also share in costs when they exceed expected levels.

A Success Story: the Restaurant Franchise Captive Program

The Restaurant Franchise Captive Program (RFCP), an exclusive program of York Risk Services Group, is an excellent example of a group captive that was formed for the benefit of restaurant franchisees. This program began in the midst of California's "hard market" in 2004, at a time when workers' compensation insurance rates were skyrocketing and many businesses failed or left the state.

Two franchisees – one a Carl's Jr. and the other a Denny's – partnered to start the RFCP and began writing insurance business on July 1, 2004. The primary goal of this venture was to gain control of their own insurance costs. By getting access to claims management and embracing safety services, these two franchisees were able to drive the cost of their workers' compensation, general liability and property insurance down to the lowest level they'd ever experienced. In the 11 years since inception, the RFCP has delivered:

- A successful, growing captive insurance program with over $23 million in annual premiums
- $10.4 million in underwriting returns to members
- Historical loss ratios of 33 percent compared to 55-60 percent industry norms (this is the ratio of claims costs to premiums paid, so lower is better!)
- Over 1,500 locations in over 30 U.S. states
- Over 20 restaurant brands insured in the program

A Captive Program That Exceeded All Expectations

The RFCP program has more than exceeded the expectations of its members when first formed in 2004. Thanks to the efforts of members working with their program manager and broker to manage claims and safety issues, members have received millions of dollars in underwriting profits, turning a business expense into a profit center.
A founding member of the RFCP told us, "Getting into the RFCP was one of the best decisions I've made as a business owner. I have been in the program since its start in 2004, and the RFCP has done more to enhance my profitability than any other single thing I could have done."

Among the benefits to franchise owners:

- Underwriting Profits that directly enhance your company's profitability
- A market-competitive insurance rate
- Superior Safety and Claims Management Services that reduce your claims frequency and drive costs to the lowest possible level
- Comprehensive coverage designed to meet the insurance requirements of your franchisor (for Workers' Compensation, General Liability, Property & Auto Coverage)
- Full insurance and reinsurance protection from an "A" Rated insurance carrier
- Greater control and say in how your claims are managed
- The lowest net cost for insurance, which provides a competitive advantage in the franchisee marketplace

Concepts In The Captive

Denny's, Sizzler, HuHot Mongolian Grill, Zaxby's, Jack in the Box, IHOP, KFC, Carl's Jr., Round Table Pizza, Qdoba, Wendy's, Taco Bell, Sonic, Dunkin' Donuts, Friday's, and Long John Silvers.

Captive

The RFCP owns a cell in Atlantic Gateway international, Ltd, which is a Bermuda based segregated cell captive facility.

History and Results

The Restaurant Franchise Captive Program started in 2004 with two members and \$4.2M in premium. It has just renewed its 12th year and currently has 30 members and a premium of \$17.6 million. Over 11 years RFCP has had a loss ratio of 33.7% and more than \$10.4M in profits returned to members.

Program Year – Begins on:	Written Premium \$	Earned Premium \$	Paid Losses \$	Incurred Losses \$	Loss Ratio %	# of Claims	# of open Claims
1-Jul-04	4,188,045	4,188,045	251,053	251,053	6.00%	112	0
1-Jul-05	3,067,604	3,067,604	813,828	833,674	27.20%	87	1
1-Jul-06	4,579,684	4,579,684	1,565,360	1,570,318	34.30%	154	1
1-Jul-07	5,806,174	5,806,174	2,221,007	2,385,552	41.10%	150	3
1-Jul-08	4,554,713	4,554,713	1,636,527	1,709,083	37.50%	121	1
1-Jul-09	3,437,054	3,437,054	2,068,884	2,095,479	61.00%	112	2
1-Jul-10	2,877,978	2,877,978	1,185,541	1,334,841	46.40%	115	5
1-Jul-11	3,346,163	3,346,163	1,264,520	1,522,675	45.50%	164	10
1-Jul-12	4,225,664	4,225,664	1,134,813	1,488,438	35.20%	197	16
1-Jul-13	6,660,419	6,660,419	1,025,377	2,108,357	31.70%	386	57
1-Jul-14	11,302,189	7,848,936	769,900	1,739,463	22.20%	371	183
Totals	**54,045,687**	**50,592,434**	**13,936,810**	**17,038,933**	**33.70%**	**1,872**	**279**

General Program Structure

The program is designed to be loss sensitive, with a minimum and maximum cost component for each member and a requirement that individual members collateralize their maximum exposure (up to the 90% Annual Aggregate Limit on claims costs). Members pay in an initial premium, based on their historical losses and exposures. This premium is composed of a Loss Fund and Fixed Expenses, plus Taxes & Assessments. Typically, Fixed Expenses for the program are about 40% of the premium; the balance of the premium for each member (about 60% of the premium) goes into their Loss Fund to pay claims costs (The exact percentages are specifically stated in the program proposal). As losses occur, York Risk Services Group (Program TPA) sets individual claim reserves according to generally accepted practices approved and regulated by various state agencies. As claims costs are paid they are funded by the individual members' loss funds and are normally drawn upon each month. These expected claims costs are the basis for determining the member's ultimate costs for a given policy year (7/1 - 6/30), and for determining pay-in premiums for upcoming years. Each policy year stands alone for purposes of calculating underwriting profit, and does not affect prior or subsequent policy years.

A member's maximum individual exposure to any one claim is $350,000. The Loss Costs in excess of this amount are paid by the reinsurer (Arch). The reinsurer also provides an aggregate stop loss for the entire program that limits an individual member's losses to 90% of premium (Program Premium x 90%).

Each individual member is required to collateralize the "GAP" between their loss fund (expressed as a percentage of total program premiums) and the 90% program aggregate (Such "gap" collateral can be discounted to as low as 30% of the full "GAP" based upon a review of each member's financial statements by the reinsurer). Each member is required to post and maintain minimal collateral equal to 30% of the GAP for 3 program years at all times (30% is posted for each of their 1st 3 years in the program and maintained after that year).

Should an individual member's loss fund become depleted and claims costs continue to be incurred, the member will be assessed on an annual basis for the additional claims costs to be paid up to the 90% aggregate attachment. Collateral will only be utilized to pay such excess claim costs if a member does not pay the billed additional claims costs. A member must the keep the GAP Collateral in place as long as he is in the program. Once a member leaves the program all of his program profits and collateral will be released as his claims are closed as described below (See Profit Distribution).

The Loss Fund, Fixed Expenses, Program Minimum (Fixed Expenses), Program Maximum, Program Aggregate and Gap Collateral (Letter of Credit or Cash) amounts are all specified in the RFCP proposal provided to each member annually.

Profit Distribution and Member Performance

Returns in the captive are calculated based on the member's individual experience less any risk sharing among members. To the extent a member does not have any losses, they can have their full 60% loss fund returned, less the risk sharing component.

Each Member's Loss Fund stands alone for the calculation of underwriting profits. Risk sharing only occurs when a member's losses exceed his individual program aggregate (90% of premium). Such excess losses are shared on a pro-rata premium basis by all other program members for that program year.

The first calculation to determine underwriting profit is three (3) years after the expiration of the policy year, and is determined based on total incurred losses for each member and the RFCP program overall.

Total incurred claims costs at the end of the most recent calendar year (12/31) prior to the end of the program year are developed to ultimate expected costs by Arch using RFCP specific and general industry development factors. This amount is held back in the program loss fund with the addition of an IBNR (Incurred But not Reported Loss) factor to take into account future claims cost increases for the remaining open claims.

The balance is approved by the reinsurer and the RFCP Management Committee and set aside for distribution. York Alternative Risk Solutions (The Program Manager) then calculates each individual member's portion by applying the formula indicated in the proposal documents, and payments are then distributed to individual members (including investment income) within 60 days of the end of the program year.

Investment income is distributed to each member on a pro-rata premium basis. Historical investment returns are in the 2% to 4% range. These are the historical investment returns for the RFCP, but this is no guarantee of future performance. This process is repeated at each program year renewal (7/1) until all program year distributions are made and the program year is closed. Once a member leaves the program all profits and program GAP Collateral are released to the Member using the method described above.

Average risk sharing among members over the 11 year program has been about 1.6%. Generally, profit distribution occurs in year 4 or 5 depending upon experience – this is typical for a group captive.

Members with poor historical loss performance or those that do not comply with loss control requirements of the captive can be asked to leave the captive. This is the decision of the captive board. We have not had this situation yet in the RFCP program.

Carrier and Coverage

Arch Insurance is an A+ 15 AM Best rated carrier. They issue the program policies and provide the specific excess reinsurance and aggregate stop loss reinsurance for the program. RFCP is available in all 50 states and coverages provided are WC, GL, auto and property

Rating and Underwriting

The program effective date is 7/1. Members do not have to join on 7/1 – they can enter the captive program at any time by writing a short term policy.

The underwriting guidelines for the program have been agreed upon by the captive, York and Arch. York is the program administrator and acts as the gatekeeper for the program with input from the captive members/board.

Each member is rated based on their own experience and issued a guaranteed cost policy which typically is a market competitive premium. Members are also required to post collateral (typically a letter of credit) for the Gap exposure.

Claims

York Risk Services Group provides the claim adjudication and claim oversight for the captive. York is the largest and most experienced third party claims administrator for programs in the US. The RFCP program requires exhaustive accident investigation, promotes early return to work programs and proactive litigation management. Members have a great amount of control over the claims process. They will be involved in the settlement of each claim and for what amount.

Loss Control

The RFCP program has a very successful behavioral based risk management program that is implemented with each member. It requires commitment from top management and creates a safety culture in each member's company.

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