

RESTAURANT FRANCHISE CAPTIVE PROGRAM

Created for quality franchisees with proven management capabilities and superior insurance loss experience

turning **PREMIUMS** into **PROFITS**
for **Superior Restaurant Operators**

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RFCP HISTORY

- ❑ Program started on July 1, 2004.
- ❑ As of July 1, 2015 program entered its 12th year.
- ❑ RFCP program has been very successful for its members.

GOAL OF THE RFCP

Our goal is to put you in control of your own insurance and risk management program...

so you can **drive down** claims and costs...

and turn your insurance program into a **profit center**.

If you don't **OWN** it, you don't **CONTROL** it.

RFCP CURRENT PROGRAM MEMBERS



SIGNIFICANT FEATURES AND BENEFITS

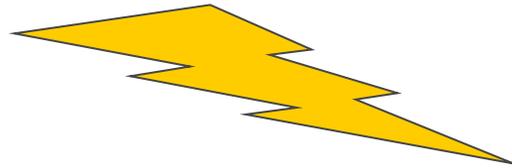
- ❑ Only the best of the best are accepted as members, ensuring a superior risk pool.
- ❑ The RFCP combined 11-year loss ratio of 33% is the result of our members' focus on safety, selective underwriting, and the effectiveness of our loss control and claims management services.
- ❑ Offering individually tailored, behavioral based safety programs, with a track record of preventing claims.
- ❑ Providing aggressive individual claims management that allows you to direct how a claim is handled.
- ❑ Quarterly claim reviews and consulting on cases involving severe injury, rehabilitation, early return to work, modified duty, potential fraud, and the like.
- ❑ Ability to recoup up to 60% of your premium, based on your company's loss experience.

SIGNIFICANT FEATURES AND BENEFITS

- ❑ Historical investment income of 2-5% on your loss fund dollars.
- ❑ One of the most experienced captive management teams in the industry.
- ❑ Members may participate in program governance through sub-committees:
 - Management
 - Safety
 - Claims
- ❑ Service providers are directly accountable to members individually and collectively.
- ❑ Members have the greatest possible control over the management, and ultimate cost, of their insurance program.
- ❑ Comprehensive Workers Compensation, General Liability, Property and Auto Coverage provided in all 50 states.

RESTAURANT FRANCHISE CAPTIVE PROGRAM

PROGRAM PERFORMANCE TO DATE



“A Track Record of Success.”

A TRACK RECORD OF SUCCESS

RFCP Combined Coverages (WC, Property & GL)

Program Year Beginning	Written Premium \$	Earned Premium \$	Paid Losses \$	Incurred Losses \$	Loss Ratio %	# of Claims	# of open Claims
July 1, 2004	4,188,045	4,188,045	251,053	251,053	6.0%	112	0
July 1, 2005	3,067,604	3,067,604	813,828	833,674	27.2%	87	1
July 1, 2006	4,579,684	4,579,684	1,565,360	1,570,318	34.3%	154	1
July 1, 2007	5,806,174	5,806,174	2,221,007	2,385,552	41.1%	150	3
July 1, 2008	4,554,713	4,554,713	1,636,527	1,709,083	37.5%	121	1
July 1, 2009	3,437,054	3,437,054	2,068,884	2,095,479	61.0%	112	2
July 1, 2010	2,877,978	2,877,978	1,185,541	1,334,841	46.4%	115	5
July 1, 2011	3,346,163	3,346,163	1,264,520	1,522,675	45.5%	164	10
July 1, 2012	4,225,664	4,225,664	1,134,813	1,488,438	35.2%	197	16
July 1, 2013	6,660,419	6,660,419	1,025,377	2,108,357	31.7%	386	57
July 1, 2014	11,302,189	7,848,936	769,900	1,739,463	22.2%	371	183
Totals	54,045,687	50,592,434	13,936,810	17,038,933	33.7%	1,872	279

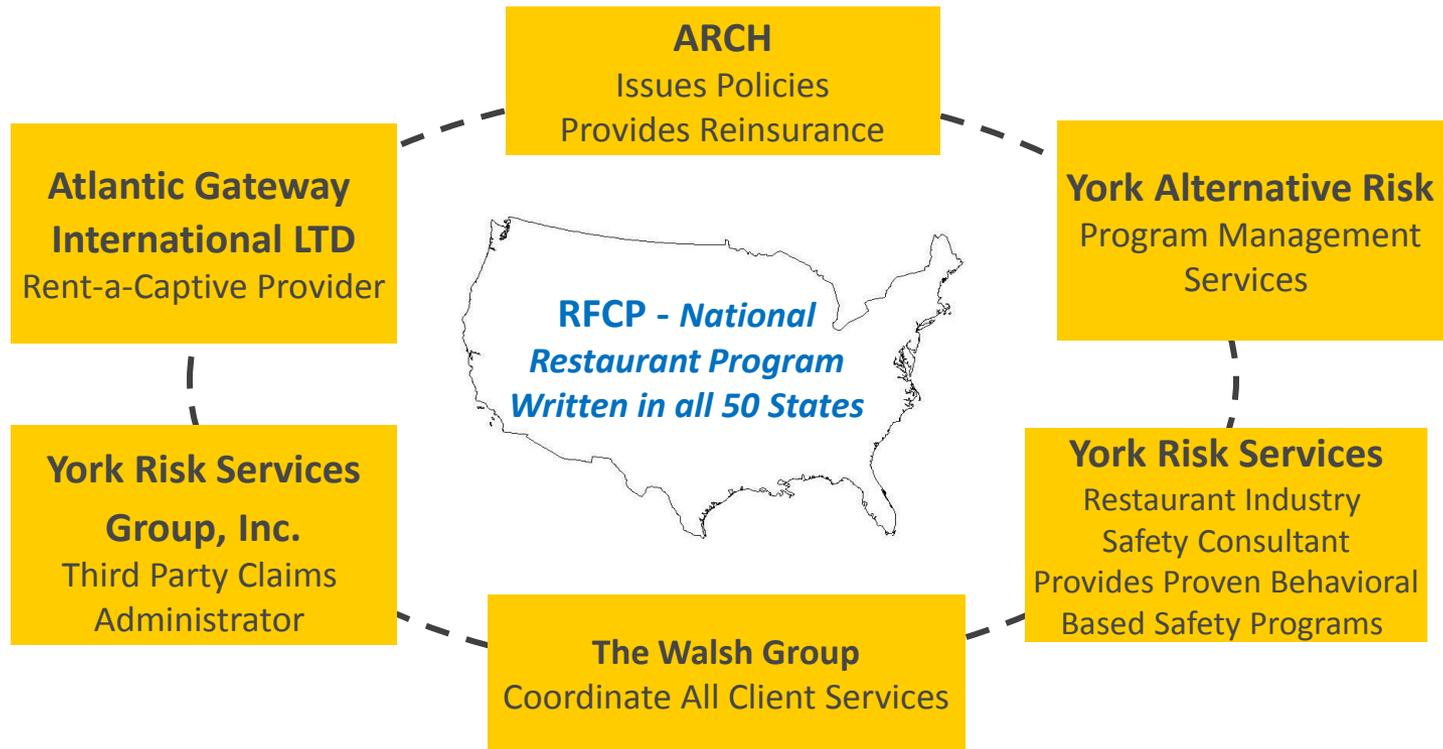
1. All premium and losses are as of 3/31/15
2. At the 7/1/2015 Renewal the Annual Program Premium = \$16.2 Million
3. There have been >\$10.4 million of underwriting profit distributions

PROGRAM STRUCTURE



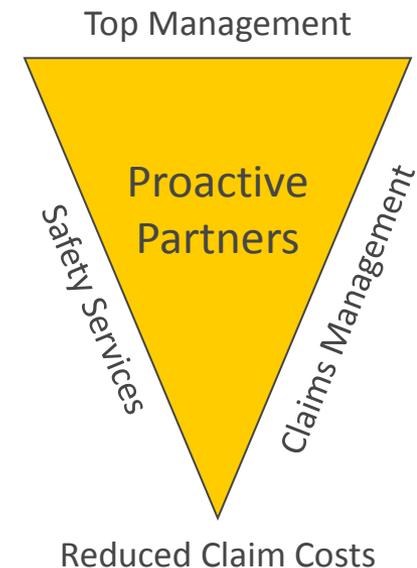
*turning **PREMIUMS** into **PROFITS***

RESTAURANT FRANCHISE CAPTIVE PROGRAM



DRIVING DOWN CLAIM COSTS

1. Underwriting Guidelines
 - Stringent Requirements to Enter Program
2. Claims Management Program
 - Exhaustive accident investigation
 - Early return-to-work program
 - Proactive litigation management
3. Behavioral Risk Management Program
 - Requires top management commitment
 - Addresses “risky” behaviors in workplace
 - Creates a safety culture in each member’s company

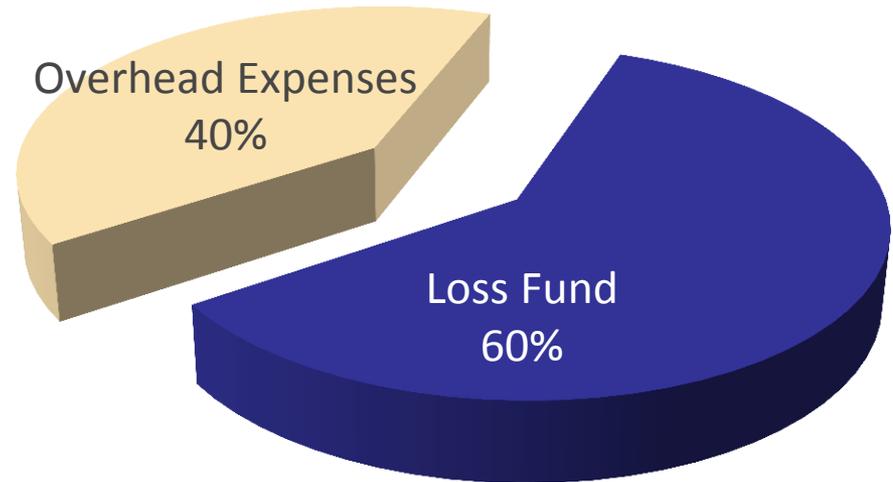


CAPTIVE FINANCIAL STRUCTURE

EXPENSES AND LOSS FUND

Overhead pays for:

- Program Administration
- Claims
- Underwriting
- Loss Control
- Specific and aggregate reinsurance
- Boards and bureaus
- Premium taxes
- Fronting
- Audits
- Rent-a-Captive (captive management)



Loss Fund pays for:

- Expected losses in the retained limit
- Five years of historical data is used to determine the amount of the loss fund

OVERVIEW OF RFCP PROGRAM COST COMPONENTS

Example with Estimated Premium of \$500,000
Program Minimum Premium Requirement = \$150,000

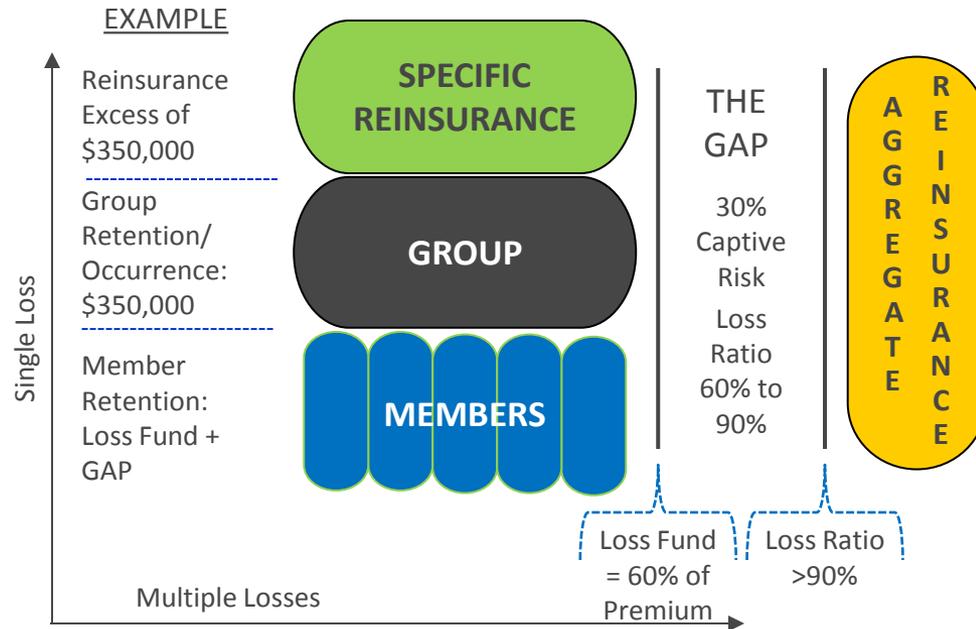
Program Component	\$ Amount	% of Premium
Total Premium	\$500,000	100%
Loss Fund	\$300,000	60%
Overhead Costs	\$200,000	40%
Reinsurance Aggregate/CAP	\$450,000	90%
GAP Collateral*	\$150,000	30%
Maximum Cost	\$650,000	130%

*Collateral = Reinsurance Aggregate – Loss Fund (Can be LOC or Cash Collateral)

**ARCH can discount required collateral by 70% down to 9% of premium depending upon historical losses and financials

RFCP RISK STRUCTURE

EXAMPLE



Collateral (LOC or Cash) secures the "GAP," the difference between loss fund of 60% and aggregate reinsurance of 90%=about 30% of premium.

- Premium = \$500,000 / year
- 40% (\$200K) of premium goes to fixed costs; 60% (\$300K) to loss fund
- Max member's risk = \$650K (premium +\$150K GAP)
- Program has a per occurrence stop loss of \$350,000 & aggregate stop loss of 90% of premium (\$450K).
- Each member's loss fund stands alone for the calculation of underwriting profits.
- Risk sharing between members occurs only when a member's losses exceed his individual loss fund and GAP combined. Such excess losses are shared on a pro-rata premium basis by all other members. The reinsurer pays all amounts in excess of \$350K on any one claim.
- Underwriting profits are distributed after the 3rd program year.

RFCP MEMBER ROI AT VARIOUS LOSS LEVELS

Example:
Member
Premium
\$500,000

Loss Fund:
\$300,000
(60%)

Expenses:
\$200,000
(40%)

Member Risk
(GAP):
\$150,000
(30%)

Losses/Loss Ratio	Member's Income (Example)	Member's ROI (Example)
\$0 / 0%	\$300,000	200%
\$50,000 / 10%	\$250,000	167%
\$100,000 / 20%	\$200,000	133%
\$150,000 / 30%	\$150,000	100%
\$200,000 / 40%	\$100,000	67%
\$250,000 / 50%	\$50,000	33%
\$300,000 / 60%	\$0	0%
\$350,000 / 70%	(\$50,000)	(33%)
\$400,000 / 80%	(\$100,000)	(67%)
\$450,000 / 90%	(\$150,000)	(100%)

Program
Aggregate/CAP:
90%

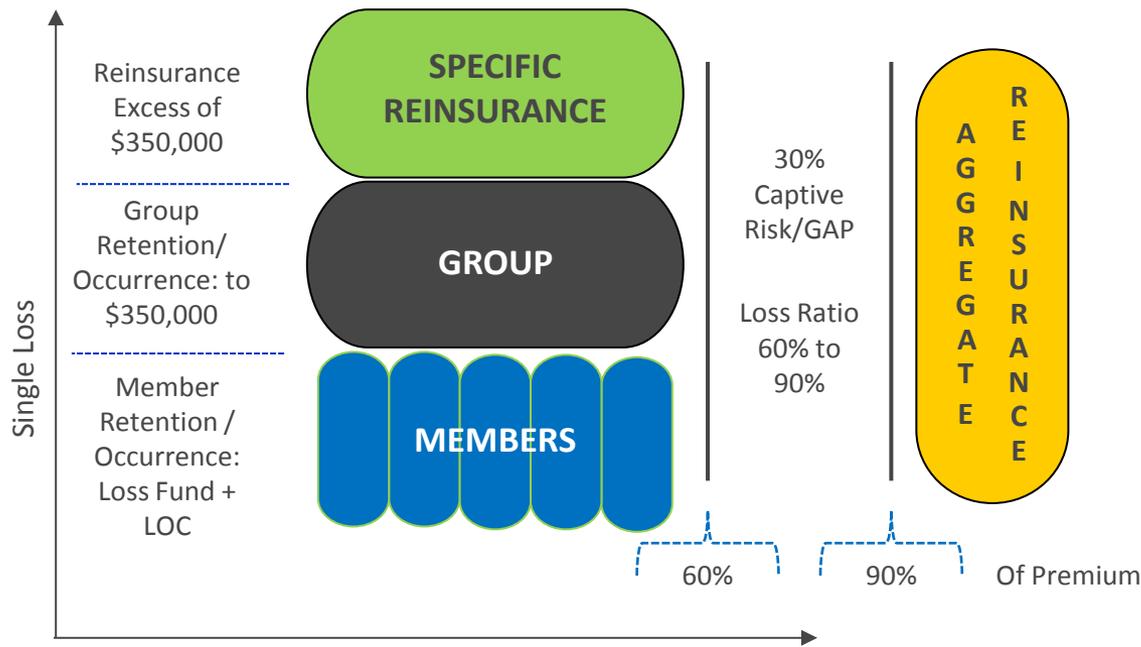
Investment
Income Not
Included

ROI is the Ratio of
Member's
Income to
Member's Risk
(GAP)

Program Upside
is 200% of
Downside

CAPTIVE FINANCIAL STRUCTURE

EXAMPLE TYPICAL YEAR



Specific Example Employer A:

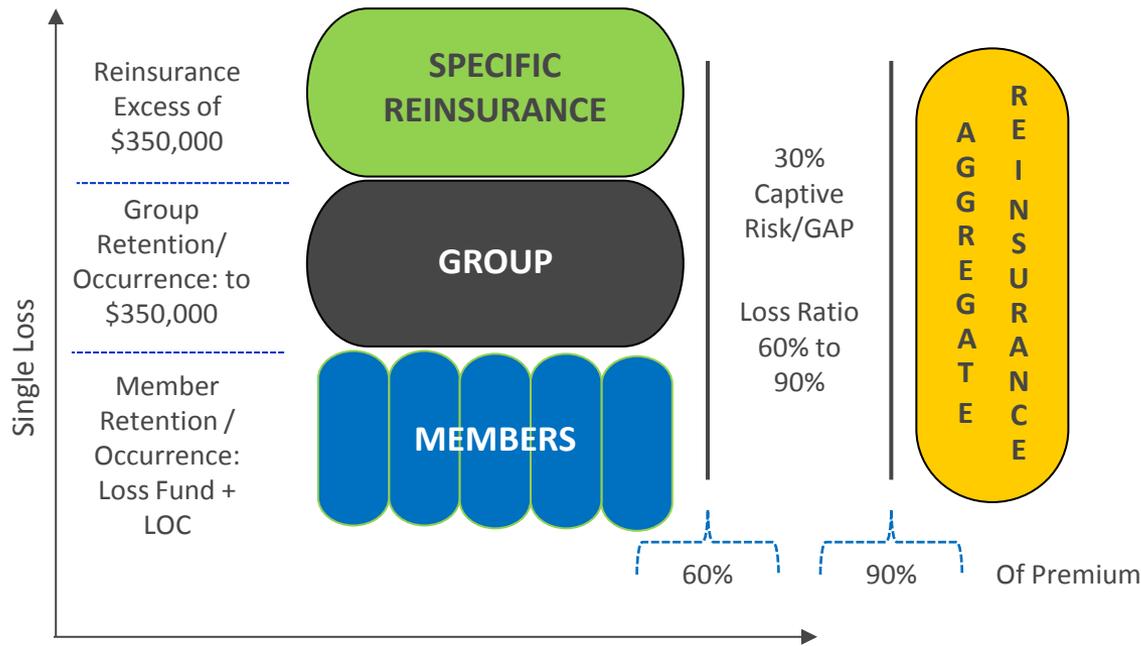
- Pays annual premium of \$250,000
- Loss Fund is 60% of premium = \$150,000
- GAP is 30% of premium = \$75,000
- Loss Fund + GAP = \$225,000

Employer A has a \$20,000 claim, a \$17,000 claim and a \$12,000 claim.

1. Employer A pays the three claims-- total \$49,000-- from the company's loss fund, leaving a fund balance of \$101,000.
2. The captive doesn't pay anything because the claims were within the member's loss fund.
3. Likewise, the Reinsurance policy is unaffected.

CAPTIVE FINANCIAL STRUCTURE

EXAMPLE CATASTROPHIC CLAIM



Specific Example Employer A:

- Pays annual premium of \$250,000
- Loss Fund is 60% of premium = \$150,000
- GAP is 30% of premium = \$75,000
- Loss Fund + GAP = \$225,000

Employer A has a \$475,000 claim from a severe accident

1. Employer A pays \$225,000 as its Annual Aggregate/Retention (Loss Fund + GAP)
2. The captive pays the difference between \$225,000 and \$350,000 as its group retention = \$125,000 (i.e. other members pay this on a pro rata basis)
3. The Reinsurance policy pays the remaining \$125,000 (Amount XS \$350K)

RFCP COLLATERAL

- ❑ All captives require their members to collateralize the gap between expected losses and the aggregate attachment point
- ❑ Collateral is an irrevocable letter of credit (LOC) or cash
- ❑ Issuing financial institution must be approved
- ❑ LOCs must have an automatic renewal or “evergreen” clause
- ❑ LOC amounts are adjusted as claims mature
- ❑ LOCs will “pyramid”
- ❑ Arch is currently discounting the GAP collateral by 70% down to 30% of the full GAP with approved financials (about 9% of premium). You will have to post 3 years of this discounted GAP collateral (= One full annual GAP). You can post collateral in installments (2 or 4).

RFCP - UNDERWRITING GUIDELINES SUMMARY

- ❑ Must be a restaurant operation (franchisee, franchisor or independent operator)
- ❑ Acceptable loss history (less than 40% for past 3 – 5 years)
- ❑ \$150,000 minimum premium for Entrée program.
- ❑ Alcohol sales less than 25% of gross sales
- ❑ Delivery sales less than 10% of gross sales
- ❑ Restaurants providing entertainment are excluded
- ❑ Available in all 50 states (some exceptions in coastal areas)
- ❑ Can underwrite all property and casualty lines (WC, GL, Property, Auto)
- ❑ Must pass ARCH financial assessment
- ❑ Must meet approved program standards for:
 - Safety Program
 - Fire & Life Safety Equipment
 - Physical condition of restaurant facilities (age, maintenance, house keeping)

RFCP PROGRAM ADVANTAGES

- ❑ Customized service for the Restaurant Industry
- ❑ Proven track record
- ❑ Strong experienced service team
- ❑ A rated Carrier/Reinsurer (Arch)
- ❑ Largest most experienced program TPA in the US
- ❑ Available in all 50 states
- ❑ Can underwrite all property and casualty lines
- ❑ Enhanced company profits

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