



Multifamily Captive Group
Insurance Solutions for the Real Estate Industry



Reduce your per unit cost of insurance.

Who We Are

Multifamily Captive Group is unique in that we offer alternative insurance programs tailored specifically for the multifamily property owner. We bring together experts in residential real estate with authorities in the captive and financial centers. Our experience in both fields span over more than 20 years.

The Definition of a Captive

The definition of a captive insurance company is "a corporate entity generally owned by a non insurance company (or group of companies) to provide insurance services to that company (or group of companies), its employees, customers or suppliers."

A captive is formed as a framework for an internal profit center to be used for insurance coverage. Better control of costs and less exposure to the rates dictated by the conventional insurance industry are thus realized.

What We Bring to the Residential Real Estate Market

Our primary mission is to give property owners an alternate insurance solution that protects them from large premium spikes so prevalent in today's market. As you well know, property and liability insurance is no longer a small ticket item. The premiums are going up anywhere from 50% to 200%. Although captives have been around for many years, the current state of the conventional insurance industry has compelled the multifamily industry to find more financially feasible ways of addressing insurance coverage. With the Multifamily Captive Group, property owners are in control of their insurance costs.

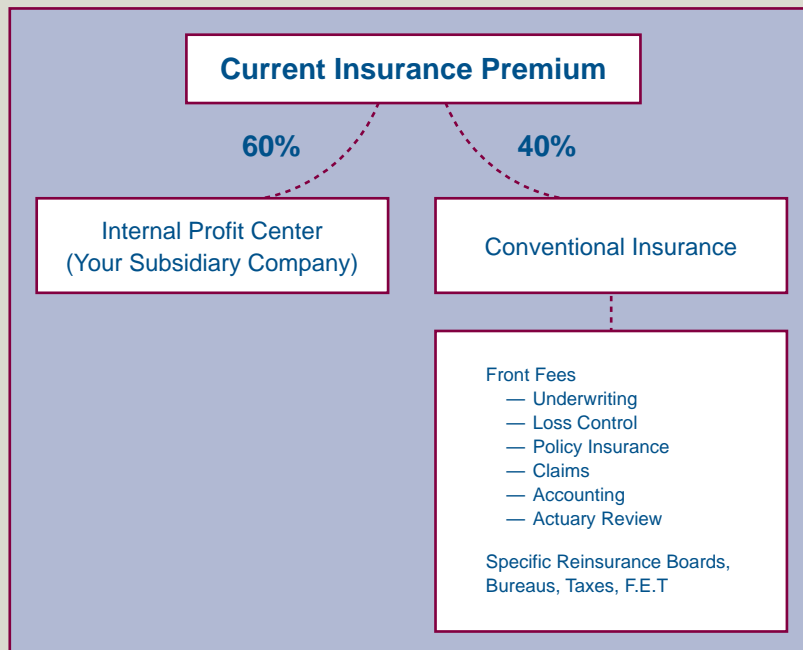


Create an internal fund that can generate profits that grow over time.



Reduce your exposure to insurance rate premium spikes.

Multifamily Captive Setup



Without Captive

Conventional Insurance Outcome

- 100% Exposure to Insurance Industry Premium Rate Increase
- No Internal Profits

With Captive

Captive Outcome

- 20% — 40% Exposure to Insurance Industry Premium Rate Increase
- Up to 60% Recapture of Conventional Insurance Underwriting Profits + Investment Income

Control costs while maintaining long term stability.



Benefits to Property Owners

1. Controlling Costs

Control costs of insurance premiums and radical insurance expense, and with a good loss ratio you would expect to see a long-term reduction in the annual premium. Not that insurance rates have tripled in the real estate market over the past five years. Avoid correlating increase to insurance premiums as your portfolio grows.

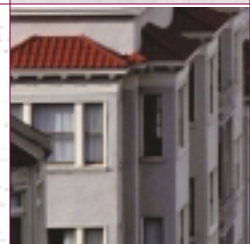
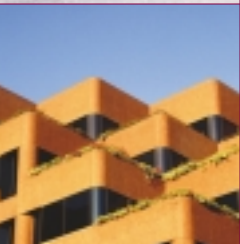
In addition to cost savings, underwriting profits that would otherwise have been earned by a conventional insurer can now be earned by your subsidiary company, or a separate company. Along with the investment income earned on these premiums. These newfound profits can be invested for further financial growth.

2. Long Term Stability

The Multifamily Captive Group allows you to control your exposure to the trends in the conventional insurance industry. The amount of risk your company is comfortable taking within the captive is up to your discretion. This risk can be elevated as your profit center grows over time. As you benefit from the captive program, the benefits of a traditional insurance plan are still in place (same services, same policy, reinsurance allocation, same loss control and claims handling).

3. Availability of Cover

When market covers are withdrawn by the conventional insurers, or when exclusion provisions are enforced, there is no reason why the captive should follow these changes. A classic example of this is the current problem of toxic mold. Policy wordings and coverage can be tailor-made to suit the insured.





4. Access to Reinsurance Markets

Reinsurance markets can often be cheaper, more flexible, and more innovative than the direct markets. Long-term deals are more than popular with the reinsurance than the direct market.

5. Improved Risk Management

The financial performance of the captive arrangement, when consolidated with the parent company's numbers, has a direct influence on the performance of the group. As such, awareness of the risk management function is heightened, and can often become a main Board Agenda item. Resultant risk control and risk reduction procedures to improve the health and safety practices are implemented with a view to reducing the long-term cost of risk.

6. Cash Flow Benefits

A captive will earn investments income on premiums, which would not otherwise be available when paid to a conventional insurer. Over a period of time, this investment income can accumulate to an amount equal to, or greater than, the original premium. Typical captive investments are in cash deposits, company and government bonds, and equity investment funds. Sums can also be loaned back to the captive's parent company.

7. Tax Deferral and Reduction

In certain instances (specialist tax advice is always recommended), the parent company can achieve tax deduction for both the premium paid and the loss reserves established. Tax is only due when claims payments, or dividends, are remitted back to the country of the parent company.



Frequently Asked Questions

How does a captive protect you from radical insurance increases?

The growth of an internal loss fund allows your company to rely less on conventional insurance. The amount of coverage that is exposed to conventional insurance increases can decrease anywhere from 60% to 80% in the first year your captive is in place. Overall, this could result in a 20% to 30% premium savings.

How do I still receive the same insurance services when a claim needs to be processed?

With a captive, there is still an element of coverage by conventional insurance, and as such all of the services that you have now will still be in place. However, by using a captive it is possible to "un-bundle" the services offered by the conventional market, and subcontract these to independent providers. This offers flexibility and cost savings, as well as relying less on the conventional market.

Why hasn't this been done in the real estate market before?

The recent state of the insurance industry is making it a necessity for property owners to use some form of alternate insurance programs. The rate of insurance per unit has gone up 300% over the last five years and is looking at similar increases over the next two years. Cost control and protection from these future increases will be required in order for future growth.

Why do I want my captive to be offshore?

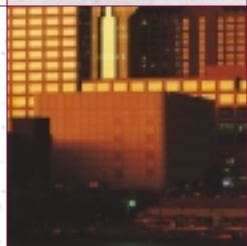
There are many benefits to working offshore:

- Less expensive
- Less set up time
- No pooling or assessment by state insurance commissions

The two largest captive centers in the world are both offshore - Bermuda and Cayman Islands. Cayman is our preferred choice due to the ease of accessibility, excellent regulation and quality of the service providers. We work with the largest independent insurance manager in Cayman. Offshore captives pay no tax in the domicile of incorporation.

What rating will my insurance company be?

The captive program generally only works with A rated companies, whether that A rating is with the fronting insurance company or the reinsurer. A captive usually does not receive a rating.





Will Fannie Mae approve mortgages with companies using captives?

Yes. We have worked very closely with a Fannie Mae mortgage servicer in understanding our captive program. This servicing company acknowledges the validity and financial soundness of the captive program.

Why would conventional insurance companies still work with captives?

Conventional insurance companies will still work with captives if they want to retain a portion of the client's business. Also the conventional markets know that captives will meet any losses in the working layer, which moves the insurer further away from the risk levels. In general the captive picks up the frequency losses, the reinsurer the catastrophe losses, and the conventional insurer sits somewhere in the middle.

Is terrorist insurance included?

The captive policy will initially follow the wording on the primary layer. The benefit of owning a captive is that this company will not be held ransom by the insurer and can adopt the policy coverage to best suit the buyer. Therefore, even though the conventional insurer may exclude terrorism, the captive can add this exclusion back to its own policy. In this scenario, reinsurance may also be available.

How can a captive generate profits?

The internal accumulation of funds that can result from a captive can be invested in bonds or other investment instruments. Also, a captive reduces your operating costs, thereby increasing your net operating income, which correlates to a higher value on your property.

How does the captive help you as you grow?

As the internal insurance fund grows over time, you will be able to rely on your own internal resources for coverage of more properties. Hence, you will be able to better control your insurance costs as your company grows. The captive can also lend money back to the parent, or else pay dividends.

What type of insurance can be covered in a captive?

You determine what type of insurance you want to include in you captive. The types of insurance that are available are as follows: property, liability, terrorism, casualty, life, health, disability, workers compensation, theft and others.



*For more information email us at info@mcgrp.com
or call 301.656.0152.*



Success Story

We are a multifamily organization that owns and manages our own properties. We have 5,200 units within the States of Maryland, Pennsylvania, Ohio and Virginia. In light of the current state of insurance for property and liability and its effect on the apartment industry, it was a clear-cut business decision to go with this alternate insurance program.

Here are some of the bottom line benefits that we have realized in the six (6) months our captive has been in place:

- Of the total premium paid, only 40% goes to the insurance agency for our costs. The balance (60%) goes to a loss fund that we control.
- Our loss fund has already accrued over 2 times the average total claims we have had over the past five years. Annualized, this would be 4 times our average total claims.
- A similar multifamily organization that we are friendly with, of comparable size, had to renew their property and liability insurance this past April at 100% increase over the prior year.
- We estimate that our per unit cost of insurance is 22% lower than if we have had convention insurance to renew this year. This estimation does not take into account future savings of our excess loss fund.
- We have reduced our exposure to insurance spikes by about 80%. This is due to the fact that future increases will be based on the 40% paid to our insurance agency.

George Klein
Chief Financial Officer
MGM Enterprises



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