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UNDERSTANDING PROFIT PARTICIPATION AND HOW IT CAN WORK FOR YOUR COMPANY

Scott Jaglowitz

Head of Strategic Initiatives, Amynta Warranty

INTRODUCTION



Scott Jaglowitz
Head of Strategic Initiatives

As Head of Strategic Initiatives for Amynta Warranty, he is responsible for leading the Structured Solutions team that drives client profitability through our Profit Participation plans.

Scott is an accomplished business executive with over 25 years in various industries such as Accounting, Finance, Manufacturing, Distribution, Technology and Insurance. He brings an extensive set of skills and knowledge that influences Amynta Warranty's business growth and profitability.

He is a Chartered Professional Accountant (CPA) and a Certified Management Accountant (CMA).



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Overview

01

OPTIMIZING POTENTIAL PROFIT

02

ASSESSING PROFIT PARTICIPATION STRUCTURES

03

FINDING THE RIGHT SOLUTION



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How to Make Profit Participation Work for Your Business

- Create a solution that best suits your business
- Optimize the product offering and service fees
- Manage loss costs and loss ratios
- Find the right profit participation structure



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Why Do You Want to Participate?

AS A
PRODUCER/
DEALER

- More profit on the same sales
- Eliminates 'splits' between Administrators
- Increases sales performance

AS AN
ADMINISTRATOR/
OEM

- Alignment on loss experience
- Longer-term, more efficient relationships
- Keeps costs competitive



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Optimize Your Profits



VOLUME



PENETRATION/ATTACHMENT RATES



CHOICE OF ADMINISTRATOR



CORRECT INSURANCE COVERAGE



ASSUME RISK



AVOID ATTACHING INSURANCE PREMIUM, WHERE POSSIBLE



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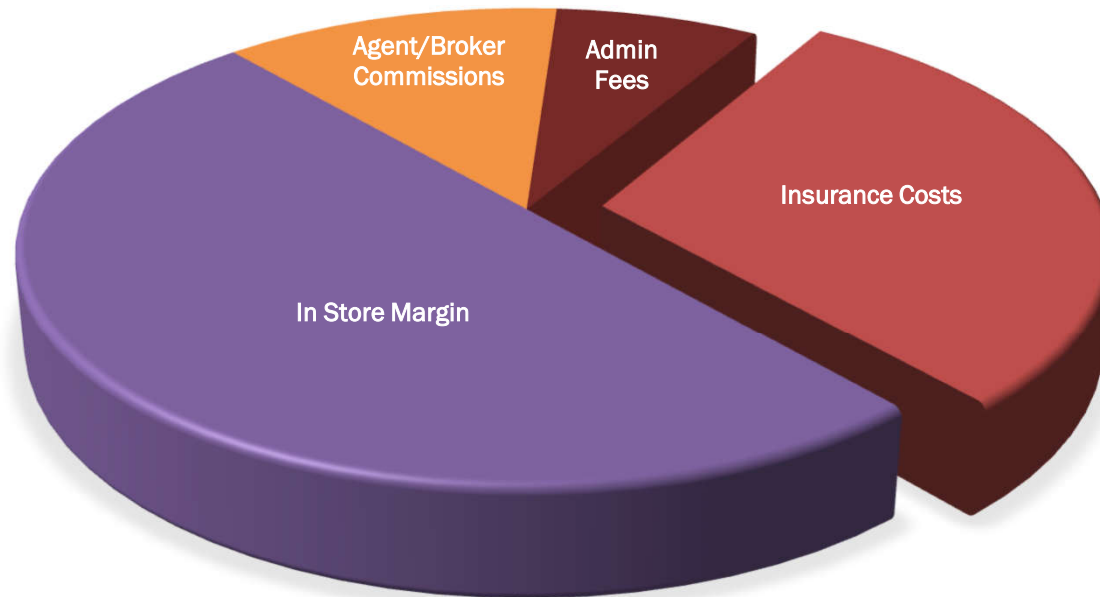


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Review Your Fee Structure



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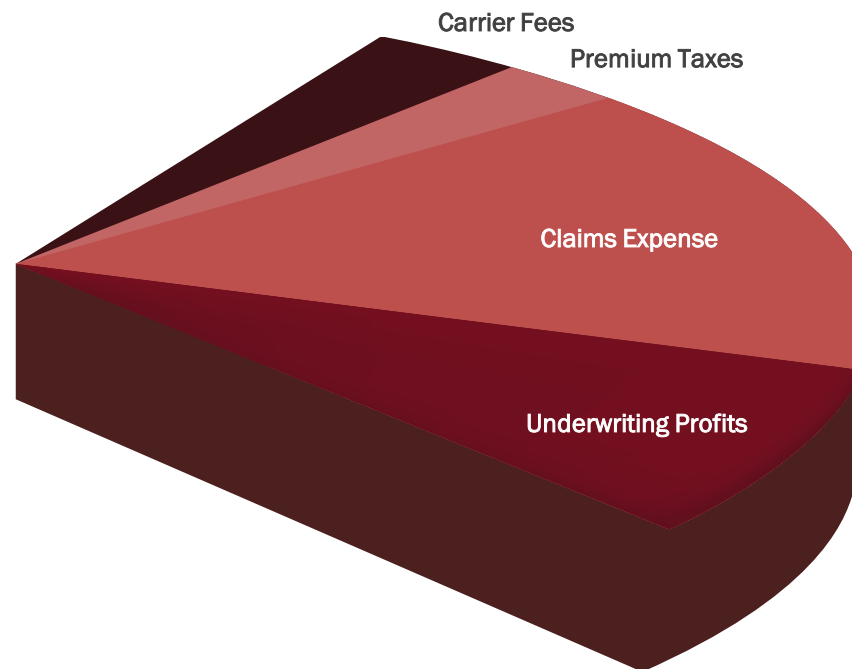


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Manage Your Insurance Costs



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Access Your Profits

ASSESS YOUR UNIQUE BUSINESS TO DETERMINE WHICH ASPECTS ARE MOST IMPORTANT:

- How much risk can/will you take?
- How involved do you really want to be?
- Do you have restrictions on ownership?
- What do you intend to do with the profits?
- Determine the best 'structure' for your profit participation 'solution'
- Find the right business partner to design a participation solution that fits



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Profit Participation Structures

REINSURANCE STRUCTURES

- Producer Owned Reinsurance Company (PORC) or Controlled Foreign Corporation (CFC) (US only)
- Non-Controlled Foreign Corporation (NCFC)

NON- REINSURANCE STRUCTURES

- Contingent Compensation Agreement (Retro)
- Dealer Owned Warranty Company (DOWC)



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Assess the Structures

PROFIT POTENTIAL

**INVOLVEMENT AND
RISK**

**START-UP AND
OPERATING COSTS**

**CASH FLOW
EFFICIENCY**



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Retro



Medium

PROFIT POTENTIAL



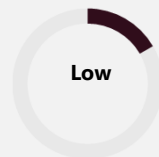
Low

INVOLVEMENT AND RISK



Low

STARTUP & OPERATING COSTS



Low

CASH FLOW EFFICIENCY

KEY CONSIDERATIONS:

- Easiest way to participate in Underwriting Profit and Investment Income
- No upfront money to join
- No downside risk
- Set-up timeframe: Immediate
- Warehousing: not required



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PORC/CFC



PROFIT POTENTIAL



INVOLVEMENT AND RISK



STARTUP & OPERATING COSTS



CASH FLOW EFFICIENCY

KEY CONSIDERATIONS:

- Tax election has annual premium thresholds
- Owner takes on liability and tax risks
- Investment income taxed
- Set-up timeline: 1 to 3 months
- Warehousing: possible



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NCFC

- Traditional NCFC no longer as advantageous
- But solutions are available, should have the following characteristics:
 - Owned/controlled by reputable company
 - Domicile has full tax treaty with the US (and/or Canada)
 - Considered Qualified Foreign Corporation
 - Exempt from PFIC (Passive Foreign Investment Company) rules
 - Foreign Accrual Property Income (FAPI) rules in Canada



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Amynta NCFC



PROFIT POTENTIAL



INVOLVEMENT AND RISK



STARTUP & OPERATING COSTS



CASH FLOW EFFICIENCY

CHARACTERISTICS:

- Domiciled in Barbados where Amynta currently operates
- Barbados has comprehensive tax treaty with the US and Canada
- Not considered a PFIC or FAPI
- Qualified Foreign Company = Qualified dividends

KEY CONSIDERATIONS:

- Low-risk
- Full product availability
- No annual premium threshold
- Liabilities segregated
- Set-up timeframe: about 3 months
- Warehousing: possible



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DOWC



PROFIT POTENTIAL



INVOLVEMENT AND RISK



STARTUP & OPERATING COSTS



CASH FLOW EFFICIENCY

KEY CONSIDERATIONS:

- High risk
- Long start-up times
- Product limitations
- Potentially adverse tax considerations in future
- Significant tax planning opportunities
- Highest cash flow options
- Set-up timeframe: 6 – 9 months
- Warehousing: not an option



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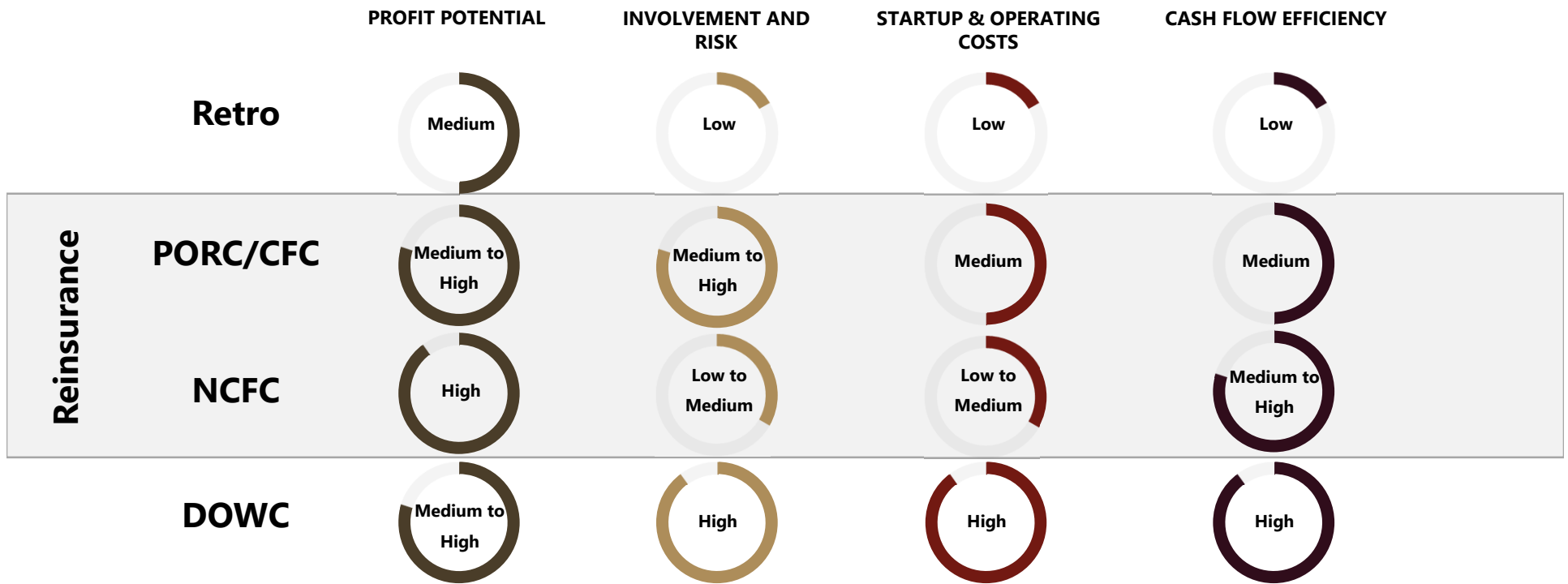


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Assessment Summary



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Assessment Questions to leverage Profit Participation

01

What is our current 'book of business' that has a potential for profit participation?

02

Are we leveraging our entire book of business properly to optimize profits?

03

What is the current and historic performance of our business? (claims, penetration/attachment, mix, trends, etc.)

04

What are the long-term goals for the business regarding cash flow and ownership?

05

How involved does the business want to be in risk management?

06

Do we have the right business partner to provide a tailored solution to optimize our profit participation?



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Thank You!

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