

Fifth Annual Joint Meeting of HTA and TRA

Monday, March 12, 2007

General Session

8:45 a.m. to 9:00 a.m.

WIN—An HTA Insurance Success Story

- **Chris Gannon, Marsh USA, Wagering Insurance NorthAmerica**
- **John Lapreay, Marsh USA, Wagering Insurance NorthAmerica**

Stan Bergstein: There are very few success stories in racing today and we're happy to be able to bring one of them to you. In 1978, coming up on 30 years, Harness Tracks of America introduced its insurance program for racetracks, specific to racetracks. And last year, on \$1.8 million in premiums, our insurance program made a profit of \$546,000 for our members. Those are impressive numbers, and I believe that there are a lot of racetracks in this country, thoroughbred and harness and greyhound and quarterhorse, that aren't even aware of this success story. So we thought it important to bring it to you this morning and to tell you about the insurance program, specific for racetracks. Here are Chris Gannon and John Lapreay of Marsh USA, who manage our insurance program, to give you a little bit of background on WIN Insurance, Wagering Insurance NorthAmerica, and to hopefully encourage you to consider it for your own racetracks, general liability, auto or worker's comp.

Chris Gannon: What is WIN? WIN is a group captive insurance company that was formed in 1978. It was originally created to insure the exposures of harness tracks, but has since been opened up to include all tracks, all breeds. It's significant that it was created in 1978. A lot of insurance companies that are out there, some of the big name players, are a lot younger than WIN. Ace, XL Capital are a few that come to mind. It's also interesting to note that a lot of well-known insurance companies have gone out of business since 1978, when WIN was created. Kemper and Reliance are two. There's history and stability with WIN. WIN writes worker's compensation; automobile, both liability and physical damage; and general liability.

Currently 14 racetracks across the United States participate in WIN, and each has a seat on the board of directors. One of the benefits of WIN is the control that you get over your

insurance program. It starts right at the top with participants having a seat on the board of directors. Tracks currently participating are: Beulah Park, Buffalo Raceway, Jackson Raceway, Lebanon Trotting Club, Lexington Trots Breeders, Miami Valley Trotting, Mid-State Raceway, Monticello Raceway, Northfield Park, Northville Downs, Northville Racing Corporation, Pompano Park, Suburban Downs, and Yonkers.

Let's take a step back for a second. What is a group-captive insurance company? The textbook definition is an entity owned by a group of participating companies, primarily to insure or reinsure the risks of its participants, so it's an insurance company owned and funded by its policy holders. What are some of the benefits of a group captive insurance company? Economies of scale is one, by pooling your buying power with your peers, in this case tracks, you get better pricing leverage with risk service providers. There's less pricing volatility. Because the policy holders own the insurance company, the profit motive is taken out of the equation. So removing that profit motive insulates you from the peaks and valleys of the traditional insurance market. Premiums are determined by member's losses, not other companies. In the traditional insurance market, if there's a natural disaster on the other side of the world, or the other side of the country that doesn't affect you directly, it's going to affect your insurance rates. That's not the case with WIN. The premiums are driven by the losses of the members, so that further insulates you from the volatility of the traditional property and casualty insurance market.

You gain direct access to the reinsurance market. Reinsurance is insurance for insurance companies, and it's less expensive than traditional insurance. So via WIN, via a captive, you can tap in directly to that reinsurance market without having to go through your primary traditional insurance company with the margins they bill in to get your reinsurance. Control, and this is the big one, with a captive you gain control over your insurance program. You decide whether to settle a lawsuit, or defend a lawsuit. You decide what attorney you want defending you in a lawsuit, and via your participation in the board of directors, you have a say in the premiums you pay. Insured share of the underwriting profits and investment income currently being reaped by traditional insurance companies: The profits that the U.S. property-casualty insurance market has made in the past few years are staggering. So joining WIN, or joining a captive, gives you the opportunity to stop contributing to the profits of big insurance companies and start contributing to your own profits. Here are those numbers: in 2003, net pre-tax income—this is profit not

revenues—was \$40.6 billion in the United States only. In 2004, that number went up to \$53.4 billion. In 2005, it was \$54.2 billion. This is mind-boggling to me, when you consider that Katrina happened in 2005, and insurance companies have \$50-60 billion in reserves or payments set aside for Katrina, they still made \$54.2 billion. In 2006, the 12-month numbers aren't tallied yet, but for the first three quarters, the profits are \$63.6 billion. They could very well make \$100 billion in profits this year. They don't make profits like that by charging you too little for your insurance.

I'm going to turn it over now to my colleague, John Lapreay who is going to talk a little bit more about the specifics of WIN, and what you need to do to get involved with it.

John Lapreay: I wanted to touch on the actual parameters and structure of the insurance program and how it will look to a future participant, the actual policy structure, program structure, etc. First, the actual program structure: it's a guaranteed cost, no deductible policy structure. Coverages include, as Chris mentioned, worker's compensation, general liability, auto liability and physical damage. No deductible, you pay a premium for the policy year, policy is rated based on your loss experience, exposure, as compared to the participants where, as you can see by the results, the experience has been extremely favorable. The limit-structure, which is really critical to the program, it's a \$2 million per occurrence limit-structure for both general liability as well as automobile liability. Worker's compensation, of course, is statutory coverage, unlimited liability as determined by the state.

The critical feature being that your \$2 million per occurrence limit will help you in negotiating your umbrella nexus program on top of this structure. Aggregate limits are applicable on a per-location track basis, so for the typical insured that would come into the program, probably buying a million dollar underlying limit-structure, this is going to be extremely beneficial. The insurance company: the policies are issued by AIG, one of the largest insurers in the U.S., in the world, A+ rated paper. You'll have extreme success with certificates of insurance with business partners; it's an AIG policy to the outside world. They do not know about the captive, it's an AIG program as far as your business partners are concerned. The claims handling is administered by Gallagher Basey, one of the preeminent TPAs in the country for worker's compensation, general liability, and auto. We'll work to control the cost to ensure

that we're getting the best results possible which will further enhance the results of your program as well as the captive as a whole.

Some other features: you pick defense council, you control defensive council, the captive does. We're not at the mercy of the insurance company's directive. Participant's coverage: the program affords coverage for participants, the jockeys and drivers probably unique to some programs, a key feature here and with the control and the structure of the program, the captive has a lot of control and direction over the coverage afforded. Racinos are welcome; Chris mentioned this program is extremely flexible, as this exposure increases at existing tracks, very coverable. We're looking to include this type of exposure in addition to thoroughbred tracks and other types of facilities. Obviously, the program is endorsed by the HTA. And then just some specifics on what we would need to provide you with a premium figure, or quotation, to get you enrolled in the program. We have a very specific underwriting questionnaire which we have in the back of the room and would like to hand out, which will get into the specific details but in general, current loss history, five years will be sufficient, just showing us aggregate loss information for the three lines to be covered, any larger loss activity, and the questionnaire will show what is needed. Your worker's compensation experience mod worksheet, that would be helpful if we can just get the experience mod number, that would work as well. Projected sales, payroll, vehicles to be covered will be included in that document. I do want to say as well that even though the program affords worker's comp, GL, and auto you do not have to buy all three lines from the captive. This is just a brief description of the operation and its unique aspects. I'm sure most of you have relationships with current brokers or your agents right now, you can maintain that existing relationship and for new participants, this program will pay commissions to your broker or your agent. So a key feature to consider with the insurance company, we're not looking to change any current relationships that you currently have. Some contact information: Rick McCue of Maywood Park is the president and CEO; Dan O'Leary, special counsel who some of you may know; myself, client advisor, I lead the broker's transaction with the insurance company at AIG and the overall service throughout the year; and Chris Gannon is the client executive, overall responsibility for the account and dealing with getting members in the door and working for the overall relationship. I'll be happy to discuss any questions anyone may have, any particulars, how to get enrolled, any questions at all.

Stan Bergstein: Thank you John and Chris, I would like to mention one element and that is not to let many breed prejudices get in the way of profit. Many people probably in the thoroughbred tracks and TRA regard this program as a harness tracks program. It was started by HTA, but it is not exclusive to harness tracks, or any other kind of tracks. We welcome members, we have a successful operation and we have an operation with 30 years of experience behind it. So I would suggest, since your existing brokers can participate with commission, that you give very serious consideration next time your renewal comes up, to joining WIN and we would welcome you warmly. I would like to thank John Lapreay and Chris Gannon for their concise summary, and I should mention that I don't consider the fact that offshore captives have to meet in exotic locations as any detriment or drawback. If you're a director or alternate director of the company you'll have to do it, you'll have to go to places like the Grand Caymans and Nassau and so forth. Government wants you to go offshore, WIN will be happy to entertain you there.