



Optimizing DOWC Programs

Thur, March 30 @ 11:00AM CT



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MARK NAGELVOORT

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A seasoned executive in the industry, Mark has dedicated 30+ years to developing software administration systems. He specializes in using his expansive knowledge to help customers establish all phases of their extended warranty programs including sales, policy and claim administration, risk management, and offshore reinsurance within our PCRS software.

PRUDHVI GANDAMALLA

Dealer Participation & BI Manager

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Prudhvi Gandamalla is the Dealer Participation & Business Intelligence Manager where she works to ensure our BI solutions perform at peak productivity and functionality. She applies her widespread knowledge and experience to guarantee our systems exceed our customers' expectations and business needs. She is also the product owner and subject-matter expert of our PCRS dealer participation program.



GREG PETROWSKI

SVP / SECRETARY / TREASURER

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Gregory has over 30 years of technical and practical experience in the PORC and captive industries. His lists as his clients a significant number of major insurance companies, national banks, and automobile dealers/dealer groups. His fields of expertise include regulatory filings, accounting, taxation and tax planning for insurance companies, reinsurance treaty review and negotiation, profitability analysis of blocks of business, financial projections for both statutory and GAAP accounting and non-insurance accounting and tax matters.

BRYAN DOBSON

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Bryan joined GPW and Associates, Inc. (GPWA) as an Accounting Manager in 2017. His professional career of 26 years in the insurance industry includes captive management, underwriting, business development and product development. Prior to joining GPWA, Bryan worked for Assurant and Transamerica his most recent position was the management role of Controlled/Non-Controlled Foreign Corporation (CFC/NCFC) reinsurance programs. He has achieved the Associate in Captive Insurance (ACI) designation from the International Center for Captive Insurance Education (ICCIE).



Q&A

(at the end of the webinar)

Submit questions at any point during our webinar.

You can do that by selecting the Q&A button at the bottom of the screen. All questions will be answered at the end of the webinar.



TOPICS

- 1 What is DOWC?
 - Streamlined and Tough States
 - Program Agreements
 - Trust Account
 - Cash Flow
 - DOWC Taxation
- 2 Advantages, Disadvantages, and Considerations
- 3 Strategies
- 4 The flexibility to meet market needs
- 5 How to quickly launch these programs
- 6 Exploring how PCMI now supports all participation types including DOWC



GREG & BRYAN

GPW



What is a DOWC?

- A DOWC is a Dealer Owned Warranty Company
- Not a reinsurance company, which dealer may also own
- It's directly obligated to perform under the service contract sold
- It's registered as service contract provider in all states in which it will do business and must comply with state licensure/registration laws
- Program is typically administered by a third party administrator (TPA)
- Program can include VSC, TW, PPM, and other non-insurance products capable of being issued by a service contract provider
- Products are typically insured via a failure to perform or excess of loss insurance policy provided by highly rated third-party insurer (not first dollar insurance)
- Minimum capital may be higher than other DOR and NCFC reinsurance programs (typically \$10,000 to \$500,000 – FL 634 company)
- Formation costs are less than reinsurance, but state registration fees run between \$500 to \$1,500 per state

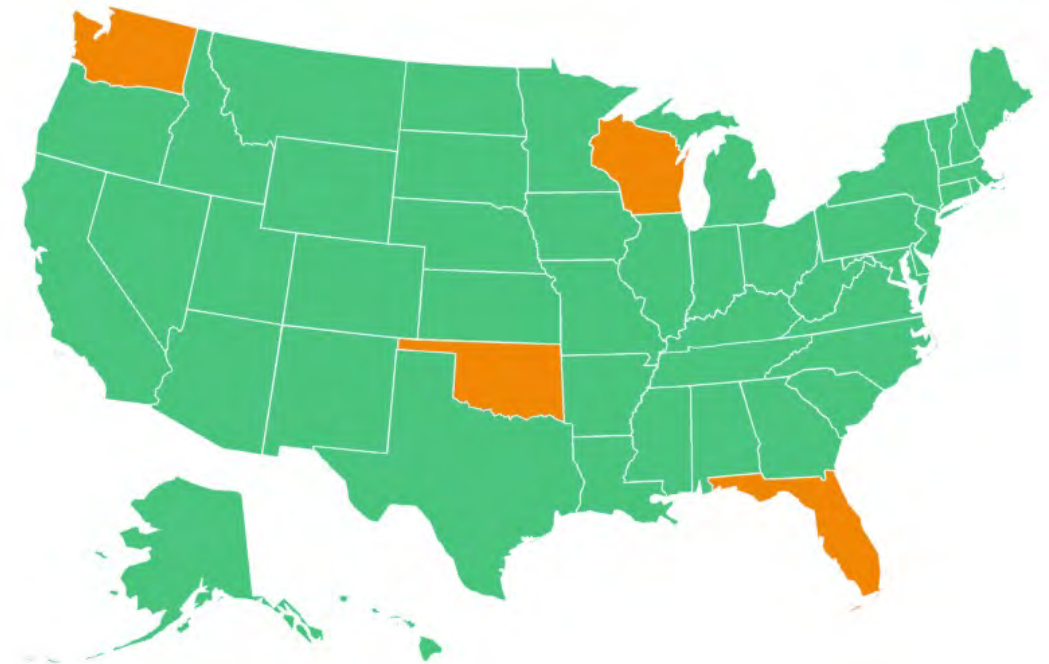
Streamlined States

Majority of states, but still must:

- ✓ Form entity
- ✓ Apply for licensure/registration
- ✓ Arrange for solvency, but no net worth
- ✓ File and gain form approval
- ✓ Ongoing obligations

30 - 90 DAYS

Time frame generally needed to get regulatory approval



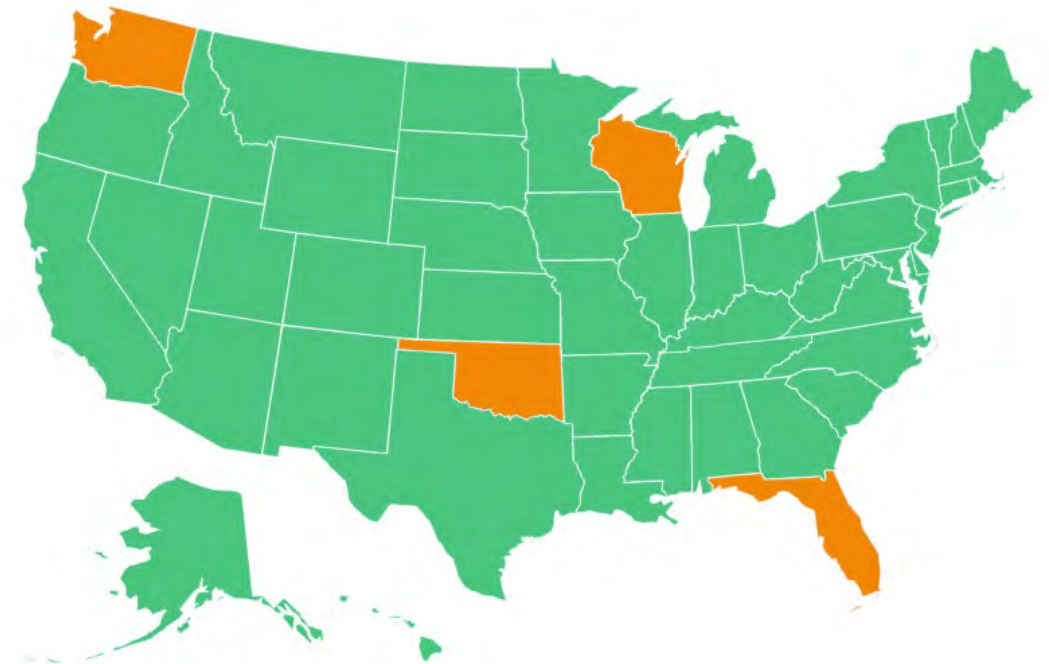
Tough States

Florida, Oklahoma, Washington,
Wisconsin can require:

- ✓ Net worth
- ✓ Fingerprints, etc.
- ✓ And can take much longer than 90 days to get licensure approval

90+ DAYS

Time frame generally needed to get regulatory approval



Program Agreements

Administration/ Management Agreement

between TPA/program administrator and DOWC to provide administrative services for the program (premium processing, claims adjudication, reporting, etc.)

Contractual Liability Insurance Policy (CLIP)

between DOWC and primary insurer (typically a failure to perform agreement)

Dealer/Producer Agreement

between DOWC and all producing dealerships (program administrator may also be a party to this agreement) to sell DOWC contracts

Trust Account

- DOWC program also has trust account FBO CLIP Insurer
- Amount required is typically limited to expected claims and refunds (less than 100%) since insurance is not first dollar (i.e. excess of loss/failure to perform CLIP)



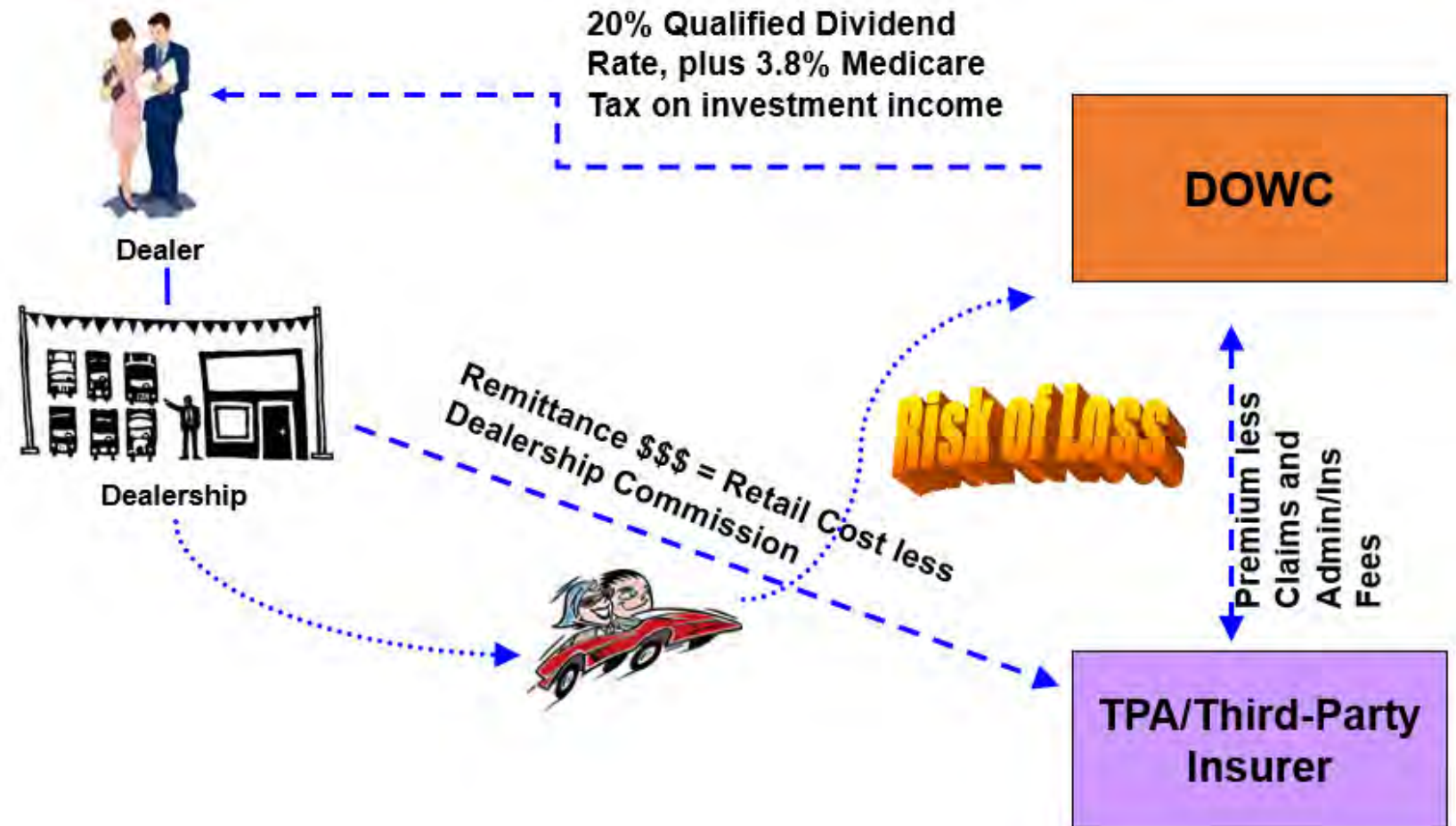
Cash Flow

DOWC programs vary, and they can either:

- Split monthly dealership remittance between Administrator and DOWC (administrator bills for administrative fees, CLIP fee, and claims, with net remittance going into DOWC trust)
- Or handle it similarly to DOR program (administrator receives net remittance and distributes net amount to DOWC trust)



Cash Flow



DOWC Taxation

Income Tax Filing

Company files both State and Federal income tax returns (no premium tax is paid)

Federal Taxation

Federal taxation as a P&C insurance company (TAM 9601001, plus more than 30 PLRs issued subsequent to 1996)

State Taxation

State taxation varies, but most states start with Federal taxable income and adjust for various items (CA does not)

Retail Cost Accounting

Most DOWCs utilize retail cost accounting, which recognizes the retail cost of VSC as premium and expenses dealer commission and administrative fees up front, which generates a large tax loss for first 7 or more years of program

IRC Section 831(b) Election

Company typically does not make IRC Section 831(b) election until it is placed into runoff status (assuming new program is not part of controlled group with runoff DOWC)

Advantages



- High potential for additional profit
- Risk limited to initial capital
- DOWC typically pays no tax in first 5 to 10 years of program due to net operating loss generated by the use of retail cost accounting
- Dealer controls funds, although back-end insurance may require some funds be invested in trust (i.e. expected claims and refunds)
- Potential for deferral of taxation to shareholder
- Potential for preferred shareholder taxation
- No exposure to Forms 8886 or 8938
- Possible access to unearned cash (loan against portion of unearned premium reserve not required to be held in trust)
- Potential for greater investment income earnings due to less restrictive investment limitations of trust

Disadvantages



- Program requires a significant amount of dealer involvement compared to reinsurance program
- Program may require higher initial capital required and at risk (up to \$500,000 for a 634 company in FL) than reinsurance
- Company is subject to state income tax
- Program is limited to non-insurance products (no ability to add insurance products like GAP that require reinsurance)
- Limited lifespan of program
- Potential negative tax status once initial tax loss is exhausted
- Uncertain exit strategy
- Program may have hidden costs if dealer decides to change administrators

Considerations



Existing Reinsurance/Insurance programs:

- Does dealer/dealer group have existing reinsurance structure(s)?
- Will new DOWC be part of a controlled group with other insurance/reinsurance programs?
- What impact will new DOWC have on other existing reinsurance/insurance programs?

How committed is dealer to new DOWC program?

- No recapture available if dealer wants to exit the program
- Runoff scenario will last until the last policy earns out



Strategies



DOWC Program is ideal for large dealers that want the control of a DOR reinsurance program but do not meet criteria to qualify as small P&C company for tax purposes



Exit plan should be considered prior to entering into the program



New ownership / participation and all controlled group issues should be considered



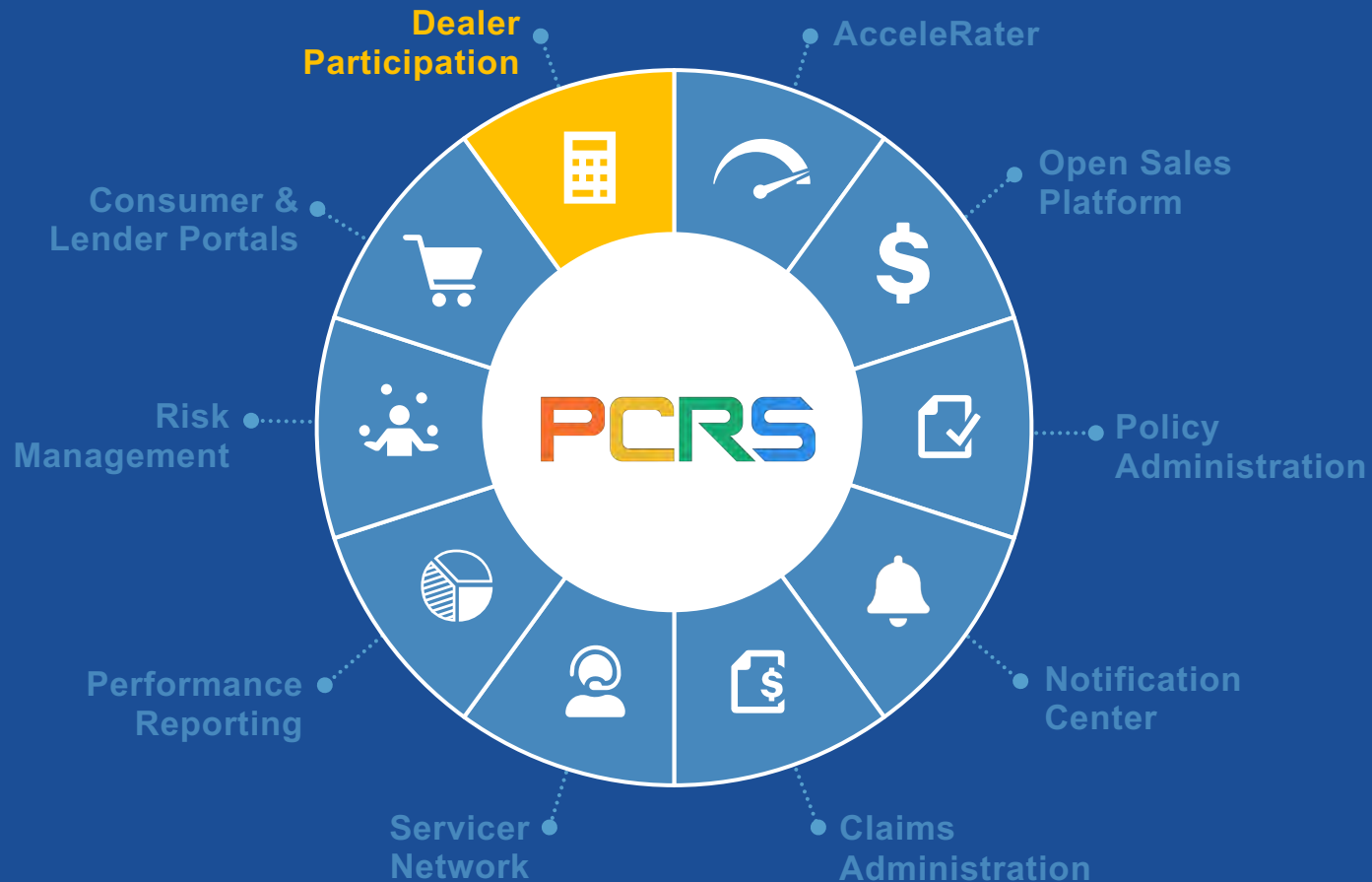
Existing reinsurance program should be considered to make sure DOWC program does not create unintended tax consequences



MARK & PRUDHVI

PCMI

Dealer Participation



- Supports individual dealer and the dealer group
- DOWC, Retro, Dividend Programs, and CFC/NCFC Reinsurance
- Access to timely financial reporting
- Can quote a share across different types
- Flexibility to run multiple programs even within the same group

Participation Programs



**Cash Advance/
Dividend**



**Reinsurance
CFC**



**Reinsurance
NCFC**



DOWC



Retro Programs

PCRS – Dealer Participation Programs



Customized Templates



Create and track
unlimited Participation
Programs



Dealer Owned
Warranty Company
specific Reporting



Retail Rate Accounting



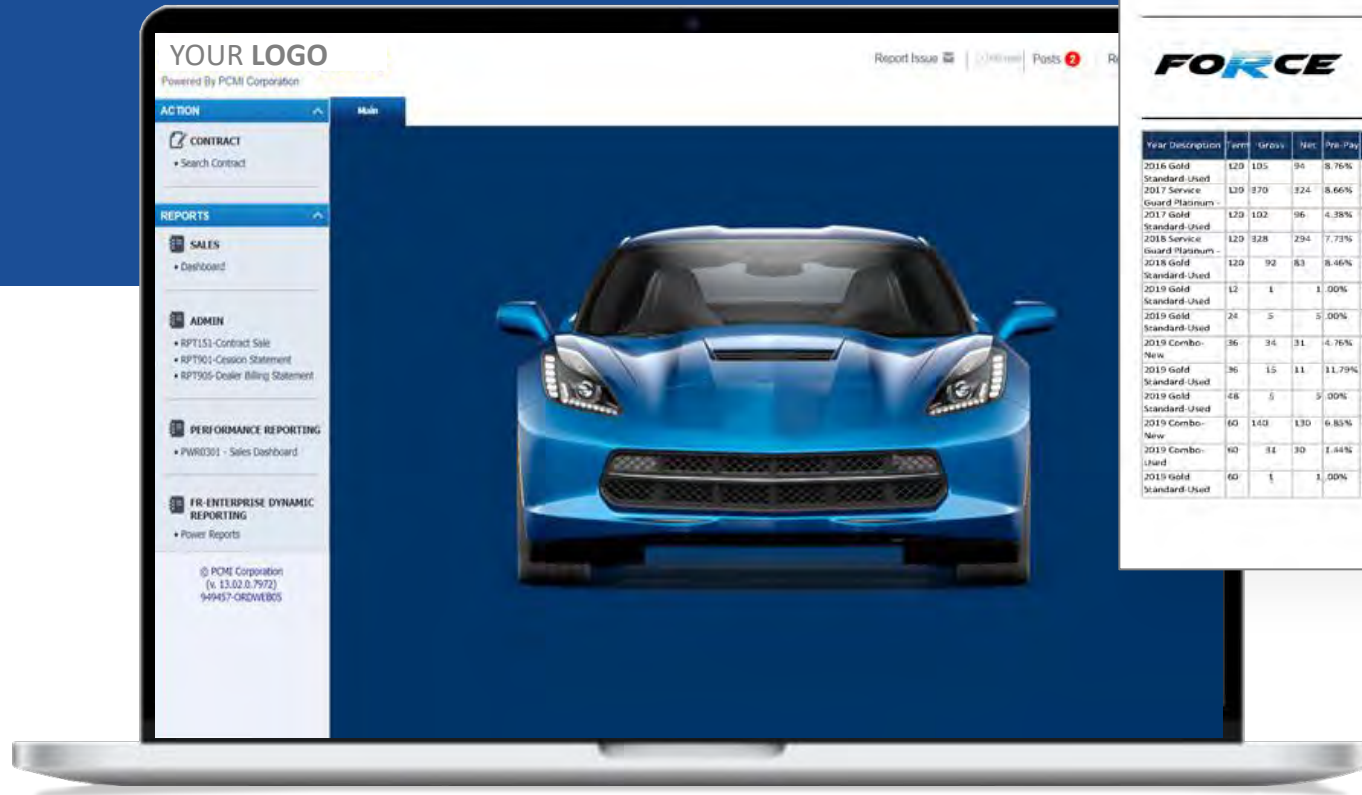
Performance
Reporting



Financial Institutions
Integrations

Dealer Portal

A dealer can login to the online portal and view the reports and statements at any time



RPT960 - EARNED PREMIUM CONSOLIDATED RESERVED

FORCE

Year Description	Term	Gross	Net	Net Pay	Gross Written	Gross Dr Com	Net Written	Net Unearned	Unearned	Charged Earned	Claims Paid	LOS
2016 Gold Standard-Used	120	105	94	8.76%	187,441.00	121,971.00	171,019.85	97,727.65	97,727.65	73,292.20	5,667.34	7.73%
2017 Service Guard Platinum-2017 Gold Standard-Used	120	370	324	8.66%	612,985.00	442,410.00	559,886.19	274,824.04	274,824.04	285,062.15	11,497.35	8.03%
2018 Service Guard Platinum-2018 Gold Standard-Used	120	102	96	4.38%	179,924.00	116,496.00	172,041.62	118,982.53	118,982.53	53,050.09	1,285.45	2.42%
2019 Gold Standard-Used	120	328	294	7.73%	550,593.06	395,941.06	508,019.41	391,209.46	391,209.46	206,809.95	546.59	.26%
2019 Gold Standard-Used	120	92	83	8.46%	162,913.00	105,275.00	149,125.96	117,030.42	117,030.42	32,995.44	220.46	.09%
2019 Gold Standard-Used	12	1	1	1.00%	2,000.00	907.00	2,000.00	0.00	0.00	2,000.00	0.00	.00%
2019 Gold Standard-Used	24	5	5	5.00%	10,285.00	4,528.00	10,285.00	0.00	0.00	10,285.00	325.43	3.16%
2019 Combo-New	36	34	31	4.76%	21,630.00	10,261.00	20,600.13	2,661.78	2,661.78	17,938.35	2,725.44	15.19
2019 Gold Standard-Used	36	15	11	11.79%	33,336.00	16,383.00	29,406.75	2,472.58	2,472.58	26,934.17	5,275.01	19.58
2019 Gold Standard-Used	48	5	5	5.00%	12,334.00	6,129.00	12,334.00					
2019 Combo-New	60	140	130	6.83%	109,305.00	50,302.00	102,008.52					
2019 Combo-Used	60	34	30	1.44%	23,740.00	10,520.00	23,797.23					
2019 Gold Standard-Used	60	1	1	1.00%	6,000.00	3,233.00	6,000.00					

Company Name: BIT COA
Product: 025
Plan Date: 12/1
Participation Program: ALL
Product Type: 200
As FR:

RPT901 - Cession Statement

Reinsurance Company: BITTERROOT
Dealer: ALL
Incentive Program: ALL
Agent: ALL
Product Type: ALL
Report Period: 2019-Dec

	Cash	Current Month December 2019	Year To Date December 2019	Inception To Date December 2019
		Details	Details	Details
Gross Written Premium		\$28,135.67	\$48,654.00	\$101,358.00
Canceled Premium		\$4,039.14	\$17,010.00	\$18,956.60
Net Written Premium (A)		\$16,196.54	\$71,723.20	\$82,401.40
Expense		\$680.19	\$3,019.55	\$8,987.30
Ceding Commission		\$607.81	\$4,598.16	\$4,167.46
State Premium Tax		\$201.96	\$696.54	\$1,013.56
Total Fees/Expenses (B)		\$1,489.96	\$7,314.25	\$9,168.32

Reinsurance Premium (A) - (B)	\$14,706.58	\$64,408.95	\$73,233.10
Claim Credit	\$0.00	\$0.00	\$0.00
Lesses Paid	\$308.00	\$1,751.25	\$1,967.63
Amount Due	\$14,398.58	\$62,657.70	\$71,265.47

Program Performance	Current Month December 2019	Year To Date December 2019	Inception To Date December 2019
Ending Unearned Premium Reserve	\$10,335.67	\$31,247.65	\$60,586.45
Beginning Unearned Premium Reserve	\$5,924.78	\$18,274.83	\$0.00
Earned Premium	\$4,270.89	\$12,972.80	\$12,626.75
Earned Premium Ratio	29.52%	20.20%	17.25%

RPT968 - DEALER INCOME STATEMENT

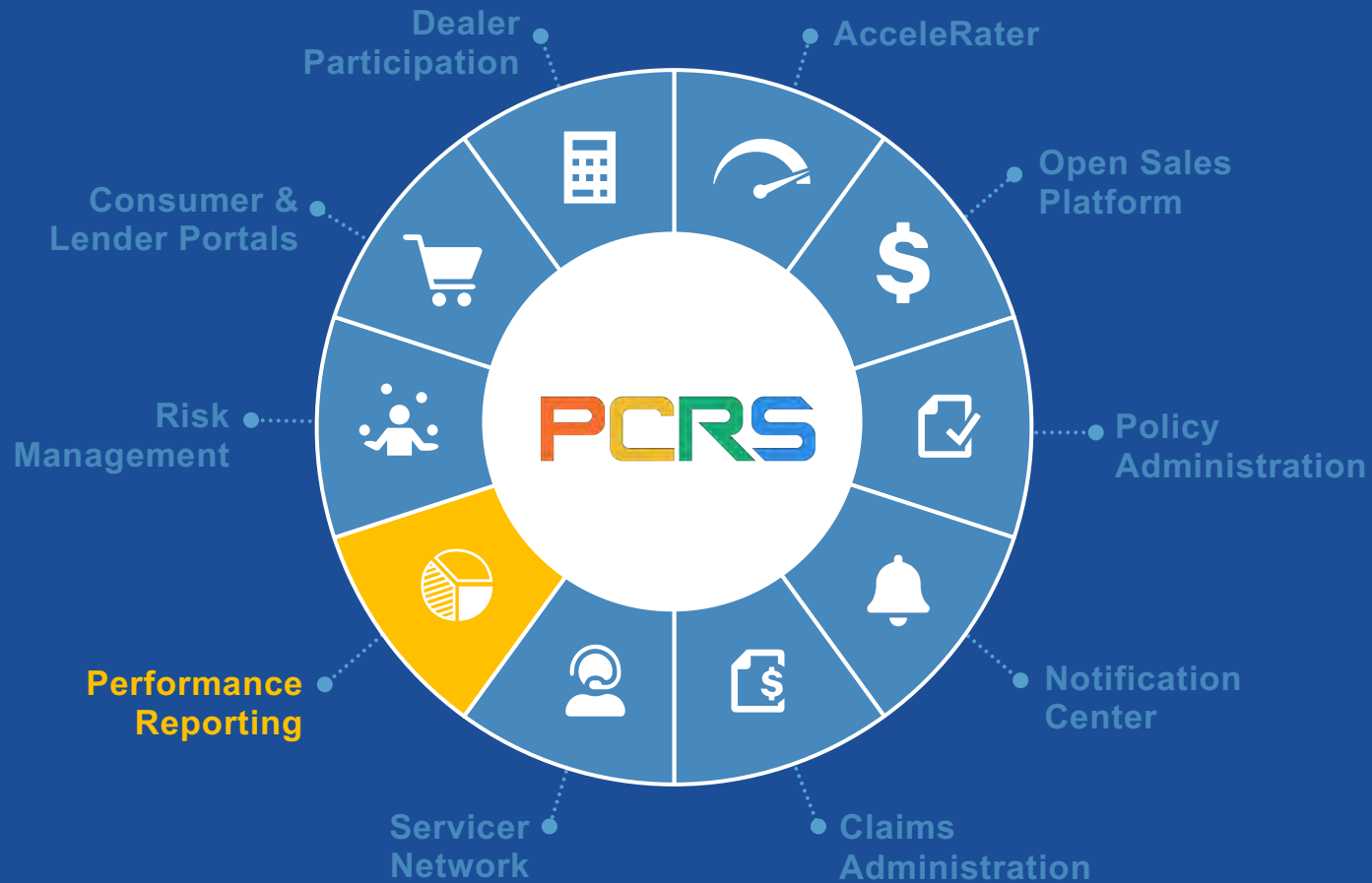
FORCE

Company Name: AFTERBURY MORTGAGE SERVICES
Product: 02404
Plan Date: 12/12/2019
Participation Program: ALL
Product Type: ALL
As FR:

INCOME	MTD	YTD
INTEREST INCOME	\$ 0.19	\$ 0.69
DIVIDEND INCOME	\$ 2,359.65	\$ 8,303.42
REALIZED GAINS/LOSS	\$ (5,032.80)	\$ (11,214.94)
PREMIUM EARNED	\$ 61,470.07	\$ 246,110.09
TOTAL INCOME	\$ 58,797.11	\$ 243,199.26
EXPENSES	MTD	YTD
ACQUISITION FEES	\$ 1,066.85	\$ 4,350.66
MANAGEMENT FEES	\$ -	\$ 2,816.10
TAX EXPENSE	\$ 14.96	\$ 70.78
LICENSE	\$ -	\$ 150.00
IBNR	\$ -	\$ 12,599.46
COMM. DEALERSHIP (EARNED)	\$ 38,100.95	\$ 153,325.81
ADMINISTRATIVE EXPENSE	\$ 5,808.79	\$ 23,480.20
CLAIMS EXPENSE	\$ 18,090.02	\$ 31,502.90
TOTAL EXPENSES	\$ 63,080.57	\$ 226,295.91
NET LOSS	\$ (4,283.46)	\$ 14,903.35

Powered by PCMI Corporation

Performance Reporting



- Dashboards
- BI Analytics
- AI Analytics

Performance Reporting



- Dashboards and reporting functionality support risk reduction
- Parameter driven reports cover key risk areas that impact profitability
- Allows users to evaluate their entire portfolio
- Users can see reporting on the Participation Programs

Quick Launch



I have a major dealership group who needs it fast.

Look at PCMI's Quick Launch
(12 weeks)





Q&A SESSION



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