R&CO WEBINAR SERIES FOR AUTO DEALERS

Transforming Risk Into Opportunity For Auto Dealers

Featuring

Casey Fernandez

Hylant

With Insights From

Ken Rosenfield, CPA

Rosenfield and Co.

Moderator

Alysha Webb

Rosenfield and Co.

HYLANT

ROSENFIELD & Co.

TRADITIONAL VALUES | EXTRAORDINARY RESULTS

01. Why Insurance Costs Are Rising for Auto Dealers

02. Dealership Insurance Breakdown – Where Are the Biggest Costs?

03. What is Captive Insurance?

04. Accounting & Financial Considerations of Captive Insurance

05. Q&A

Why Insurance Costs Are Rising for Auto Dealers

The Auto Industry's Growing Insurance Challenge

Higher Repair & Replacement Costs

Increased Lawsuits & Liability Claims

Severe Weather & Natural Disasters

Cybersecurity Risks

Market Volatility

Political Risk

Dealership Insurance Breakdown – Where Are the Biggest Costs?

- Garage Liability & Dealer Open Lot Coverage
- Workers' Compensation
- Property & Business Interruption Insurance
- Cyber Liability
- Umbrella & Excess Liability

The Challenge: Dealers **can't control** insurance market trends—but they **can control how they manage risk.**

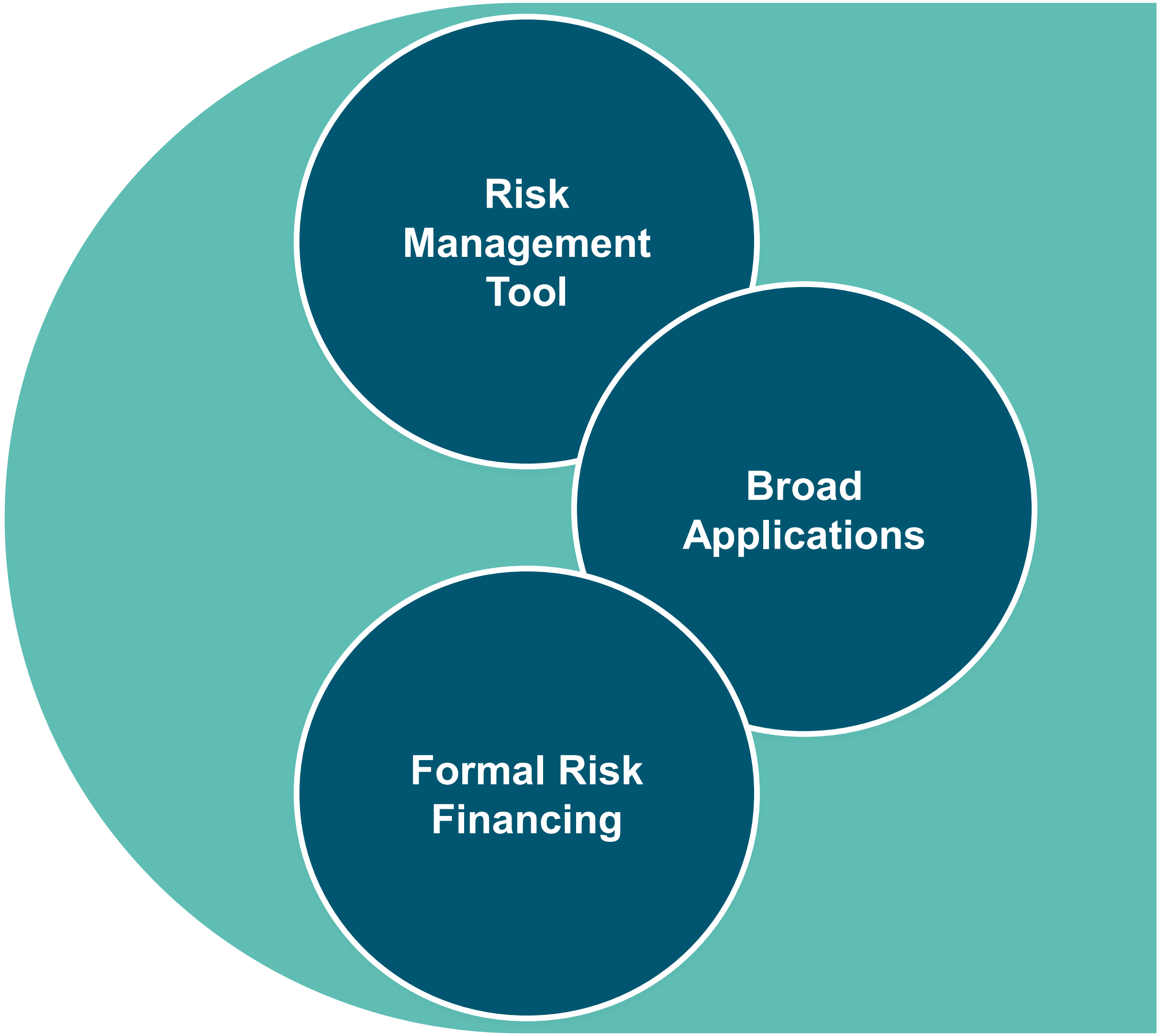
Some dealerships are exploring alternative risk strategies, including captives, to reduce costs and take control of their insurance dollars.

What is a Captive?

A licensed insurance company owned and controlled by those it insures

Insures or reinsures the risk of its parent(s) or affiliated companies

Formalized mechanism to finance **self-insured risk**



Why are Captives Formed?

Control
Management of claims
Program design

Coverage
Fill coverage gaps
Exclusions for difficult risks

Capacity
Access to reinsurance

Captive
Strategic enabler

Compliance
Legal and tax certainty
Premium allocation

Cost
Leverage the market

Commercial
Affinity programs
Extended warranties

Why Consider a Captive?

Financial

- Potential short- and long-term savings
- Financial reward for being better-than-average
- Capture investment returns
- Remove traditional insurer’s profit loading

Control

- Ability to better manage premium volatility from year-to-year
- Power to reduce costs over time by controlling losses
- Be rewarded for good loss prevention and claims management

Flexibility

- Ability to craft coverages to meet specific insured’s needs
- Options for customized value-added services
- Insulated from market conditions; address insured needs, not the insurance market

Considerations

- Incurring unexpectedly large losses
- Compliance issues
- Meeting and maintaining capital requirements
- Competing uses for available capital
- Accessing capital for competing needs
- Distributing profits
- Winding down program
- Restrictions on selling or transferring ownership
- Focus and commitment must be long term
- Overcoming the learning curve

Who Should Consider a Captive?

Company or Group of Companies

- Financially stable
- Willing to invest in themselves
- Good claims history
- Low loss ratio
- Willing to make a long-term commitment
- Willing to be proactive
- Good risk management practices
- Willing to work with other companies

Accounting & Financial Considerations of Captive Insurance

- **Potential Tax Benefits** – ability to deduct premiums as a business expense. Proper structuring and compliance are key.
- **Cash Flow & Capital Requirements** – require an upfront financial commitment and reserves to cover potential claims. Dealers must assess their liquidity and risk tolerance before entering a captive.
- **Impact on Financial Statements** – Captives affect dealership financials differently than traditional insurance. Impacts balance sheets, profit margins, and financial ratios.
- **Regulatory & Compliance Considerations** – must meet IRS guidelines and state regulatory requirements. Dealers should work with tax and legal advisors to ensure compliance.

Accounting & Financial Considerations of Captive Insurance

- **Loss of Business Income Computations** - need to adjust for seasonality
- **Replacement Value Vs Cost or Fair Market Value**
- **Deductible Methodology Vs Self Insurance**
- **Coverage Issues** - your insurance vs theirs

Captive insurance can be a **strategic financial tool**, but it’s not just about **lowering insurance costs**—it requires careful planning, risk assessment, and accounting expertise.

Thank You!

Casey Fernandez
Hylant
casey.fernandez@hylant.com

Ken Rosenfield, CPA
Rosenfield and Co.
ken@rosenfieldandco.com