

Frequent Questions

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What is a Producer Owned Reinsurance Company?

A Producer Owned Reinsurance Company is a separate company that usually has the same ownership as the generating dealership. The dealership generates the service contracts, warranties and collateral protection products being reinsured by the reinsurance company. These service contracts, warranties and collateral protection products are underwritten by an insurance company, who then reinsures the contracts to the reinsurance company.

Why should I consider owning a Reinsurance Company?

The concept was introduced more than thirty years ago. Reinsurance companies have grown to become major factors in the marketing of credit life, extended vehicle service contracts, vehicle warranties and collateral protection products. Owning a reinsurance company allows earn the underwriting profits that are currently going to other third party companies.

What will make a Reinsurance Program successful?

As with most ventures, there are critical factors that determine the ultimate success or failure of a reinsurance company. These critical factors are activities that should receive constant and careful attention to ensure the success of the program. The following are critical to the success of an Affiliated Reinsurance Company.

- To realize the maximum benefit from participation in a reinsurance program, your dealership must have an effective sales department and F & I department to sell the dealership products.
- You should have a clear understanding of the potential benefits of participation in a reinsurance program. Requirements, such as minimum production of contracts goals and maximum loss ratios should be clarified in advance. Reinsurance profits depend more on underwriting results than any other single factor.
- The program requires experienced claim management to control losses while promoting the customer satisfaction.
- Participation in a dealer owned reinsurance program should be considered a long-term investment.

Do any of the funds go offshore?

All the funds ceded to your reinsurance company are placed in your company's account at the Midwest Trust Company in the United States. No funds are sent offshore.

What is an "offshore" insurance company?

The term "offshore insurance company" refers to any insurance company formed under the laws of a country other than the United States. Generally, the liability of the shareholders is equivalent to that of shareholders in a domestic insurance company. Insurance laws and regulations vary in different foreign domiciles.

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Who controls the funds?

A Trust Agreement between the direct Underwriting Insurance Company*, Your Reinsurance Company and the Trust Company, recites the responsibilities of each participant involved in the business program. The trustee will invest reserve funds following the restriction established by the Underwriting Insurance Company in very conservative government bonds, typically earning short term rates in annual income. Investment income earned on these funds belongs to your reinsurance company. The Trust Agreement allows withdrawal for only four purposes. The first is for the payment of covered repair claims, the second is for limited professional fees, the third is for payment of income taxes and the final is withdrawal of any funds in the custodial account that exceed the required reserves. The withdrawal must have the Underwriting Insurance Company's approval. *(The underwriters will be Marathon Financial Insurance Company or United Service Contract Company)

Who controls the investments?

The funds placed in the custody and control of the Midwest Trust Company must be placed in investments acceptable to the insurance regulatory authorities who have jurisdiction over the direct writing insurers. Laws regulating the investments of insurance companies are designed to preserve the financial soundness of these investments. The Trust Agreement requires regulatory guidelines be followed until balance sheet cash accumulated exceeds 125% of unearned premiums. Once that is attained, excess funds may be invested more aggressively and at the direction of the company ownership.

Will another dealer's losses affect my company's operating profits?

Your company will only reinsure the business that your dealership writes. No other company's operations will affect the profits or losses of your company.

What if my company's reserves are not adequate to pay the claims?

If your company is unable to meet its financial obligations, the ultimate liability for claim payments rests with the direct writing insurance company. Therefore, your liability will be limited to your formation costs plus any accumulated earnings in your company.

What is the extent of the shareholder's liability?

This is a corporation and the liability of its shareholders is limited to the amount of their investment in the company.

How will the reinsurance company be taxed?

The reinsurance company will be subject to United States Federal income taxes even though it is domiciled offshore. Tax code sections allow a foreign insurance company to elect to be treated as a domestic insurance company. The election will be made when the company's first Federal income tax return is filed. Because of their unique nature, insurance companies are taxed under a special set of provisions of the United States Internal Revenue Code. Your company will be taxed as a property and casualty insurance company. Property and casualty insurance companies with less than \$2,200,000 in annual net premiums may elect to be taxed only on investment income under Internal Revenue Code 831 (b). These companies file form 1120PC annually.

Who will advise me on the proper management of my reinsurance company?

AVP will maintain your company's accounting records and will prepare your annual report that will be provided to the appointed tax preparer and the Turks and Caicos registered agent. AVP will prepare monthly financial statements detailing all activities of reinsurance operations. AVP, in conjunction with direct writing insurance company will monitor claims losses and project operations profits through contract earn out. AVP will meet with owners periodically to review the operations and financial direction of the company.