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Artex | Alternative Risk

State of Arkansas
Captive Management RFP

February 27, 2025

Agenda › › › › ›

1. Introductions & Artex Overview
2. Captive Formation & Ongoing Management
3. Client Stewardship
4. Case Studies
5. Fee Proposal
6. Why Artex?
7. Q & A

Meet Your Team

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THERE'S MORE TO ALTERNATIVE RISK MANAGEMENT.

About Artex

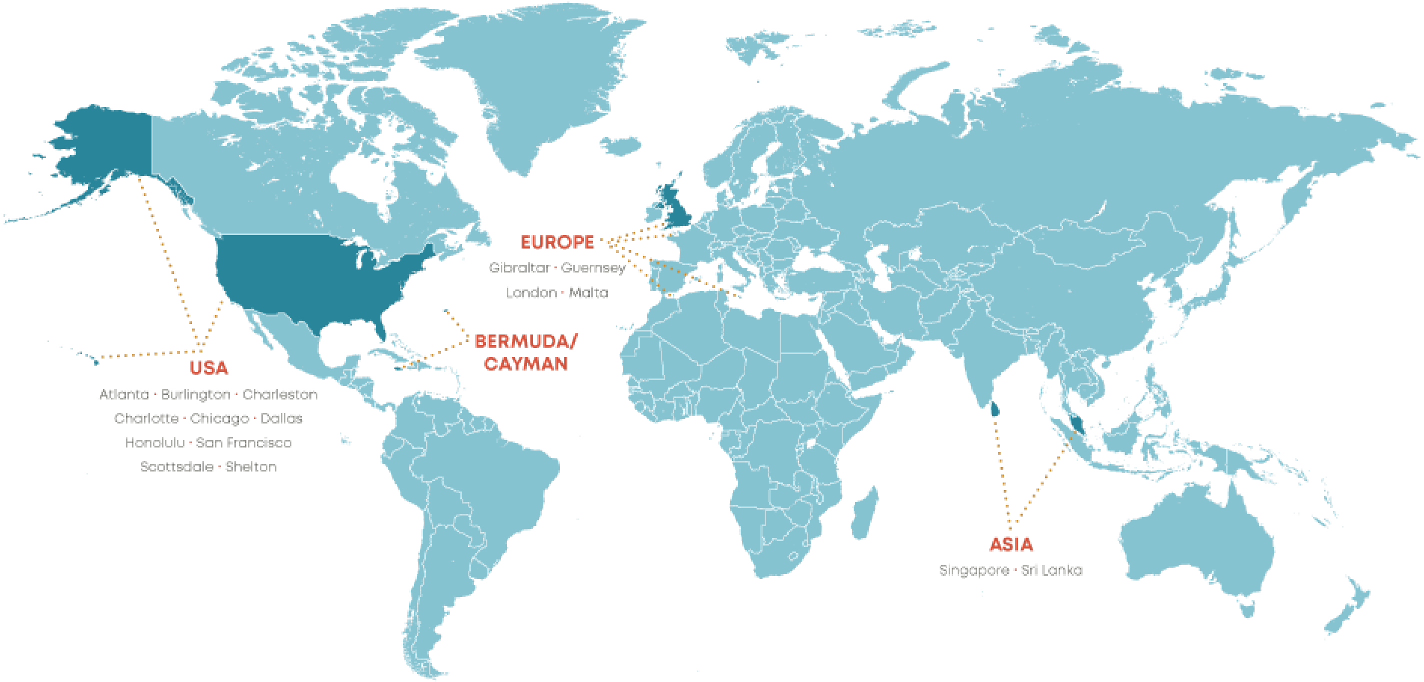
Our global team operates at the intersection of art and science—where creative thinking meets expertise and superior outcomes are made.

500+ EMPLOYEES	**16+** OFFICES	**35+** DOMICILES	**2,000+** CLIENTS

3rd LARGEST INSURANCE MANAGER IN THE WORLD	**30+** YEARS PROVEN EXPERIENCE	**1,000+** RISK BEARING ENTITIES UNDER MANAGEMENT

U.S. $8 BILLION CLIENT PREMIUMS	**U.S. $80+ BILLION** ASSETS UNDER ADMINISTRATION

100%
WHOLLY-OWNED AUTONOMOUS SUBSIDIARY OF ARTHUR J. GALLAGHER & CO., ONE OF THE WORLD'S LARGEST INSURANCE BROKERS



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A Leader in Captive Management › › › › ›

- Artex was awarded **Captive Manager of the Year** in 2021, 2022 and 2023 in the 'More than $1B Gross Written Premium' category for its service offerings, client satisfaction, and continued investments in talent and technology.
- To ensure optimal operational efficiency for both our employees and clients, we continue to invest in our IT infrastructure. For example, in 2025 will we launch a new client portal that will provide real-time access to all pertinent captive information, including policy language, financials, board minutes, and more. Additionally, we are rolling out a product called Boardvantage to our captive clients in 2025 where all board meeting materials will be accessed online.
- Governance, Risk & Compliance around captive insurance companies has developed in a material way in recent years to ensure a robust framework is in place for regulation. Artex is at the forefront of this key area having hired a number of former regulators to our management team ensuring our clients are established and managed to the highest governance levels.
- Artex is a wholly owned subsidiary of Arthur J. Gallagher. As a result, Gallagher and Artex share the same values and culture as an organization. Gallagher has been honored by the Ethisphere® Institute as one of the World's Most Ethical Companies™ for twelve consecutive years. Gallagher is the only insurance broker to make the list.

2023 U.S. CAPTIVE AWARDS
Captive Manager of the Year, More Than $1B Gross Written Premium

2023 HEDGEWEEK AMERICAS AWARDS
Best Administrator - Fund Domicile

2023 EUROPEAN CAPTIVE AWARDS
Captive Compliance Specialist

2023 CAPTIVE INTERNATIONAL CAYMAN AWARDS
Captive Manager of the Year

2023 WORLD'S MOST ETHICAL COMPANIES® ETHISPHERE 13-TIME HONOREE

Process & Timeline

PRELIMINARY MEETING

Discuss captive concepts

Review process and timelines

Generate agreement against objectives and client requirements

Review insurance program

FEASIBILITY STUDY

Compile data

Process and analyze data

Consider important elements, including domicile, type of captive entity, lines of business

Draft report

RECOMMENDATION

Present report to client

Respond to any questions and complete any additional feasibility work

Client determines whether to proceed with a captive formation

IMPLEMENTATION

Work with client and other professional advisors to implement the agreed-upon strategy

Appoint any required service providers

Negotiate coverage, fronting, reinsurance and security requirements

Submit license application

Execute agreements

CAPTIVE IS OPERATIONAL

Management account preparation

Policy issue and premium collection

Administer loss payments

Investment of assets

Annual audit

Schedule board meetings

FIRST ANNUAL REVIEW

Review captive participation, operations and coverages against ongoing objectives

Continue working with client's professional advisors to evolve and add new lines of coverage where appropriate

8 – 12 Weeks

Formation Process

- Formation for the State's July 1st renewal is possible, but will require focus and coordination across a number of key stakeholders.
- Artex, Perr & Knight, and the selected broker will coordinate with outside service providers and state regulators.
- Proposed directors need to be identified and vetted.
- Program structure and captive participation must be confirmed and documented in a business plan and license application.
- The State will need to manage legislative and/or regulatory approvals to form and license the captive.

March 2025

- Engagement for Formation Services
- KYC / CDD Documentation
- Interview & Appoint Outside Service Providers
- Begin Drafting Business Plan & License Application

April 2025

- Review Draft Business Plan & License Application
- Review and amend, as necessary

May 15, 2025

- Submit License Application to Regulator

May & June 2025

- Regulatory Review
- Incorporate Captive Insurance Company
- Select Captive Banking Partner

June 15, 2025

- Regulator Grants License Approval
- Execute Agreements & Issue Policies

Captive Operational Model

- There are a number of key service providers needed to ensure the successful operation of a Single Parent Captive.
- As Captive Manager, Artex will act as the “quarterback” to manage and oversee other professional service firms that the State will appoint.
- Captives do not typically hire their own staff, but it is critical that the State identifies key risk management, finance, and legal personnel that will interact with captive service providers to ensure smooth operation.
- Artex will send key team members to hold in-person educational and transition education for key stakeholders within the State. These will include training on financial reporting, regulatory filing, corporate governance, and more so that all relevant parties understand their roles and responsibilities regarding the captive.

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Artex's Role as Captive Manager

Captive Manager

Financial

- Maintain financial books and records
- Prepare internal monthly GAAP financial statements
- Track and monitor captive premium invoices and claim activity by line of business and policy year
- Coordinate annual audit, actuarial, and tax work
- Provide other internal reporting as needed
- Notify and implement changes in financial reporting requirements
- Assist with captive budget

Governance & Administrative

- Plan and prepare materials for Board of Director meetings
- Maintain required records, including:
  - Corporate and organizational documents
  - Minutes of Board
  - Meetings
  - Insurance policies and/or reinsurance agreements
  - Service provider contracts

Regulatory & Compliance

- Serve as principal office and regulatory liaison with captive domicile regulator
- Advise captive on regulatory compliance requirements
- Review and update approved business plan as needed
- Prepare and file annual insurance regulatory reports
- Monitor regulatory solvency and capital requirements
- Coordinate and facilitate domicile examinations

Strategic Consulting

- Develop and execute long term strategic plan
- Conduct annual stewardship process to evaluate expansion of captive utilization
- Evaluation of captive service providers
- Utilization of captive surplus
- Additional lines of coverage / higher retentions

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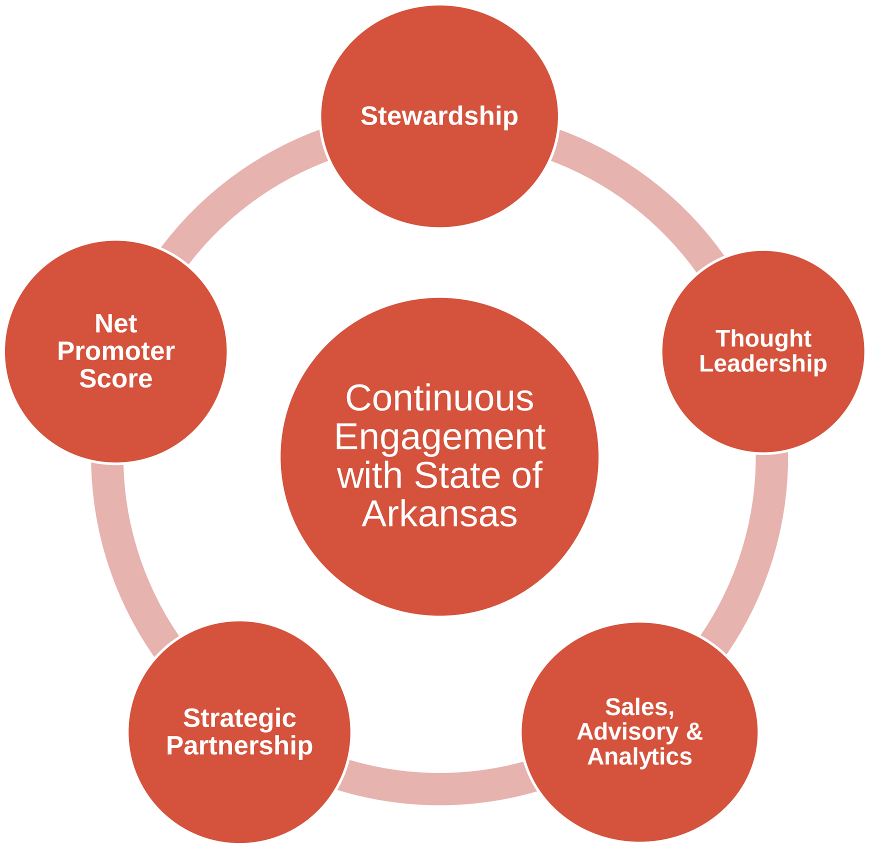
Model of Continuous Engagement

Artex has a dedicated **Sales, Advisory, and Analytics (SAA)** team to assist clients with guidance and evaluation of existing captive programs. SAA will address the following on an ongoing basis:

- What are the current goals and strategies of the captive owner?
- Are there new goals and strategies that need to be reviewed based on the growth of the organization?
- Is the current captive participation still beneficial and necessary?
- Are there opportunities to expand the participation of the captive?
- Adding new lines of coverage, increase/decrease retentions, etc.
- Pros and cons of expanding the captive to other risk-financing areas
- Are there additional ways to maximize the use of captive cash flow?
- Captive domicile — is it still fulfilling the needs of the owner?
- Are there new laws and regulations of the captive's home domicile that need to be considered and evaluated?
- Is it beneficial for the captive to consider accessing reinsurance markets directly?



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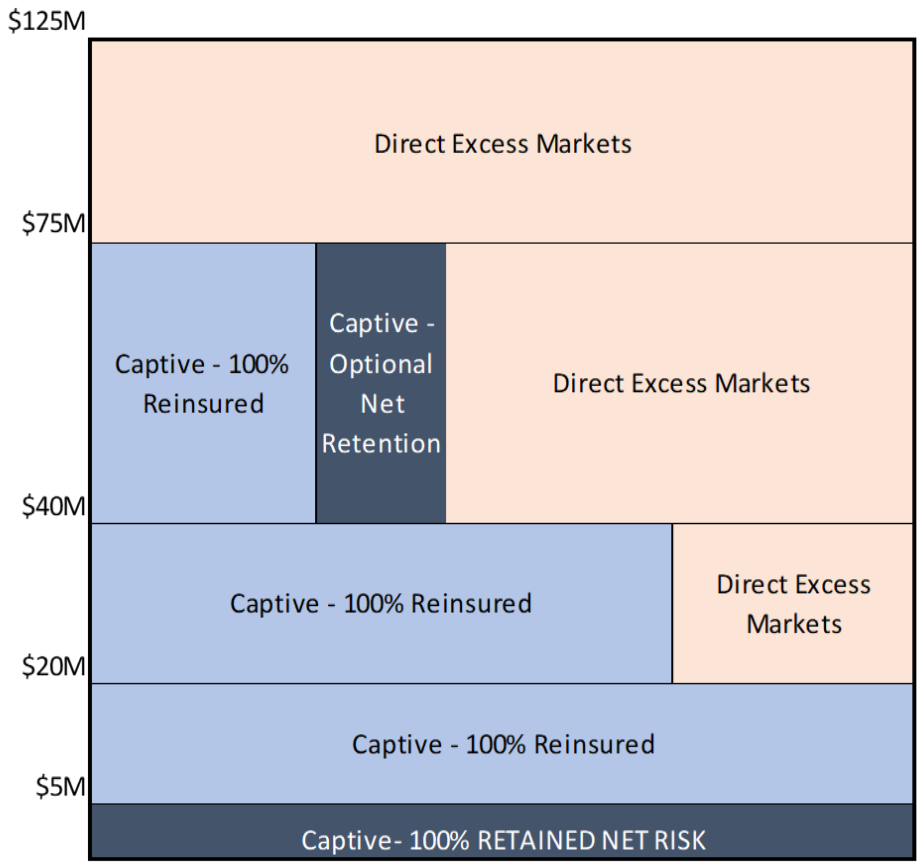
Case Study: Regional Waste Management Authority

- A large solid waste management authority, handling over 1 million tons of waste annually, faced a significant challenge when its insurance premiums more than doubled, and its insurer reduced coverage due to market tightening.
- To address this, the company collaborated with Artex to establish a single-parent captive (SPC) insurance company, allowing it to insure its own risks and potentially reduce costs.
- Artex coordinated third-party engineering site reviews to assess and document risk issues, facilitating the assembly of a layered, syndicated reinsurance panel involving over a dozen companies for a $250 million risk transfer.
- This approach enabled the company to access broader coverage features not available in traditional markets, align risk control with business outcomes, and foster a culture of accountability, leading to lower premiums and improved decision-making.



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Proposed Fees › › › › ›

(1) FORMATION SERVICES

While we understand that the State/BLR have engaged other professional advisors, it is generally a licensed captive manager that must submit a captive license application to a local regulator. There is a significant amount of work involved in this process, as we must take existing feasibility studies, actuarial exhibits, and other supporting documentation to prepare a detailed business plan and license application. We also believe there will be additional work required from Artex to support the State's decision making on program design, structure, policy issuance, and other important operational matters.

For Formation Services, Artex proposes a one time fee of $75,000

Please note that any travel-related expenses incurred in connection with this engagement, including but not limited to airfare, lodging, meals, and ground transportation, will be billed separately and reimbursed in accordance with our standard travel policy.

(2) MANAGEMENT SERVICES

Once the State's captive is formed and licensed, Artex will begin its role as the State's captive manager and will carry out duties outlined in the Scope of Services and further in this response.

For Management Services, Artex proposes an annual fee of $150,000.

Our contracts also include an annual escalation clause of 3.00% effective at each anniversary and an additional $5,000 in any year when the domicile regulator performs an examination of your captive (typically every 3-5 years). Out of pocket expenses, including but not limited to postage/delivery, meeting materials and travel related expenses are not included in our management fee and will be billed separately. Fees will be billed annually in advance and are due within 30 days. After 12 months, we will evaluate the fee based on program growth/expansion.

Please note that this fee proposal is for Artex services only, and does not include compensation for other professional service advisors that may be required for the State's captive. These include, but are not limited to, tax, legal, audit, actuarial, and banking partners. While Artex maintains close working relationships with a number of firms that provide these services, it will be the State's responsibility to engage them and pay their fees.

Why Choose Artex? › › › › ›

- Artex is a client focused and an award-winning captive manager.
- Artex is a true global leader in captive management operations.
- Artex is committed to investing in its people and technology to better serve our clients.
- Artex has extensive experience with complex property programs.
- Artex has world class insurance and reinsurance expertise.
- Artex partners with Gallagher's unparalleled global resources.
- Artex has a dedicated Sales, Advisory & Analytics team.

RETAIL

Gallagher

Insurance | Risk Management | Consulting

REINSURANCE

Gallagher Re

CLAIMS

GALLAGHER BASSETT

WHOLESALE

RPS RISK PLACEMENT SERVICES

ALESCO

UNDERWRITING

Pen underwriting

EXCESS UNDERWRITING

ALTERNATIVE RISK

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Q & A

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