

INDUSTRY INTERVIEW:

Minimizing Costs, Improving NOI & Property Value Using a Captive Program



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About the Contributors:

Doug MacGinnitie is Chief Executive Officer of River Oak Risk. He has deep insurance, tax and legal experience. From 2011- 2015, he served as State Revenue Commissioner for Georgia, managing the state's Department of Revenue. Prior to his public service, he was the COO and a Director of Beecher Carlson, a commercial property and casualty insurance brokerage firm based in Atlanta. He also served as General Counsel of the Hobbs Group, at the time, one of the largest privately held insurance brokerage firms. Doug is a graduate of Dartmouth College and Emory Law School and is a member of several non-profit boards.

Scott Stettler is the Chief Financial Officer of Wasatch Property Management, Inc., and oversees the company's financial accounting, forecasting, and reporting functions. He works conjointly with the Wasatch Group finance team, and acquisitions and dispositions team, to manage all finance and accounting aspects for Wasatch's \$2 billion multi-family real estate portfolio, including Wasatch's multifamily real estate management company, and several venture companies under the management company's ownership umbrella. For eight years before joining Wasatch in 2004, Mr. Stettler specialized in corporate tax with Washington Group International, Inc.; internal audit and corporate tax for Albertson's, Inc.; and partnership tax, financial statement compilations, and reviews for a public accounting firm in Boise, Idaho. Mr. Stettler received a Bachelor's degree in Accounting from Boise State University in 1998, and is a licensed Certified Public Accountant (CPA) and Chartered Global Management Accountant™ (CGMA®). He also currently serves as President on the Board of Directors for the Community Abuse Prevention Services Agency (CAPSA), a nonprofit organization located in Cache Valley, Utah.

Scott: I'm the CFO for Wasatch Property Management and Wasatch Communities. We are an owner managed group with approximately 17,000 units across the Western US. Our offices are in Utah and I have been in the industry for 15 years.

Doug: We operate in a specialized niche of the multifamily space. Our company helps owner-operators put together a program that allow them to create operational efficiency and earn income around tenant liability and tenant insurance requirements. We've enrolled approximately 130,000 units in the program. Scott, how have you navigated the last three months, and what has been going on in the industry, from your perspective?

Scott: Over the past 3-5 years, I have seen more technological advancement in the multifamily space than the 10 years prior to that. That has prepared us for the current situation. Implementing these technologies has helped us to better serve our residents. Training has been a key element, as well as an approach of problem-solving. We see rent collection getting more challenging in Q3 and Q4, and into 2021, so we are looking at ways to save costs and increase revenue as a means to offset the losses stemming from these challenges.

"We looked to decrease costs as well as to increase revenue share with our properties."

Doug: What have you done historically around tenant insurance?

Scott: Around 7 years ago, we started requiring all tenants to start carrying renters' insurance. We had a standard H04 policy, using a large provider in the space. We had a "pay with your rent" program, which had a 70-75% adoption rate and revenue share. This required us to have a full-time administrator, who ensured that all tenants had renters' insurance. We couldn't force tenants to use our program, so this arrangement left us with 30% of residents selecting their own plans. This required checking for gaps in coverage, and our revenue share only really covered our costs, but did not increase NOI.

We looked into a captive insurance program as a means of decreasing administrative costs, as well as decreasing the need to review the external policies. It also helped us to increase our revenue share with our properties.

Doug: Was it difficult for the leasing agents to track the certificates of insurance?

Scott: We had a dedicated person at the company who was doing that. Our biggest struggle was in making sure that leasing agents were not acting as insurance agents, which required a lot of training in terms of what information was delivered and how. It did fall on the leasing agent to ensure that we had those certificates, and it created additional administrative work in our corporate office.

"I saw that there was great potential in having our own captive insurance company."

Doug: What was the process that you went through in order to make this change?

Scott: A couple of years ago, we started looking into the benefits of captives and began speaking to providers in the space. Our main struggle was with the revenue share and the amount of money that was going to the insurance companies. Having reviewed the claims history, I saw that there was great potential in having our own captive insurance company, as well as space for us to improve the financial dynamics of the program. It made sense, since we were doing all the work, anyway. Having a tax background, I also looked into the benefits in that space, including the 831(b) election, which precluded us from paying taxes on \$2.3 million in premiums. We were also able to deduct the costs of reserves. All of the benefits started adding up, and then we came across River Oak Risk, who really impressed us. The timing was just right for us to move forward and select them as a provider.

"We can market to potential residents that they are protected by living at our properties."

Doug: It's obviously been great to generate revenue from your assets from this program. What other benefits have you generated?

Scott: We're 7 months into this program. What I really appreciate is the flexibility of having our own captive. I feel like I can set the program to my own comfort level, including liability exposure and how we communicate with our residents. There is also a relatively low administrative work load. Now that we have the additional time, we can go back and include other elements, such as personal property coverage and builder's risk. The captive can expand to cover more without it being a high added cost to the tenant. It's much more reasonable than other insurance coverage.

There's also the marketing side of the equation. We can market to potential residents that they are protected by living at our properties. It gives them peace of mind to know that.

Doug: It's worth noting that the structure of these programs results in owner-managers having their own captive insurance company. Many have used these captives to lower their overall insurance costs, which have seen substantial rises in premiums. We often get asked how much do owner-operators generate, and the answer is generally around \$100 per year per unit in profit. If you own 5,000 units, that should equate to around \$500,000 per year in profit.

What issues came up with the implementation of the program?

"We are earning about three times the amount that we were generating from the previous revenue share program."

Scott: A common dilemma in multifamily is the rollout of initiatives to the property. You can risk rolling out too many initiatives at once or initiatives that are too complex. The rollout of this program was relatively easy compared to others from the past 15 years. We were able to get a representative from our risk management team who managed our renters' insurance and renewal programs, and paired her with our trainer. We made them responsible for the rollout and handled it region by region. We ensured that everyone understood the program and that they communicated it correctly to their respective properties. We really only had one month where we had questions from leasing agents or property managers and were able to address them. Residents like the program because they don't have to go out and shop for their own renters' insurance. They feel like it's a win-win. Overall, it was very smooth and adoption is based on turnover. We are exactly where we expected to be on our pro forma. We are earning about three times the amount that we were generating from the previous revenue share program.

Because this is a captive, this is our insurance company. We have the flexibility to add our own wording for circumstances that we encounter, which can ultimately help our tenant. Standard insurance policies do not have that. Because of this flexibility, we are able to increase the quality of our customer service. The River Oak Risk team has been great to work with. I've done many rollouts over the years and this one has been smoother than most I have experienced over the years.



River Oak Risk is the leading captive insurance management company for the Multifamily and Student Housing markets to self-insure for tenant liability which generates new revenue and decreases traditional costs – therefore improving portfolio value. We are not insurance brokers and we do not sell renters insurance – we simply help our clients capture the economics they are producing for others that sell those services. Over the last 12 months Multifamily clients representing over 130,000 units have implemented our Protect Plus program.

The primary benefits of Protect Plus:

- **Financial Gain:** net income on average of \$100 per unit per year
- **Eliminate Gaps:** program covers 100% of occupied units
- **Increased Efficiency:** program is consolidated with lease for easy accounting and reporting requirements
- **Lower Costs:** valuable resources don't waste time collecting/verifying/managing certificates
- **Personal Service:** dedicated customer service agents for each of our clients throughout the life of the program
- **Additional Benefits:** your Captive allows you to self-insure in other areas of your business

Contact Us

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