

# Tenant Legal Liability Captive Program



## Situation

What happens when your tenant overflows their bath tub and damages both their apartment and the neighbor's personal property? The tenant legal liability (TLL) solution can cover these losses.

## Tenant Legal Liability Solution Provided by Active Captive

A tenant legal liability captive program is an insurance program designed for multi-unit property owners with the purpose of covering losses incurred by the landlord caused by the tenants. This type of insurance is typically underwritten by an A rated commercial insurance carrier. Subsequently, the risk may be reinsured to a captive insurance company. The captive is owned by the property owner. The captive reinsures a portion of the risk and captures the underwriting profit and related investment income. The captive is owned by the owner/s of the property.



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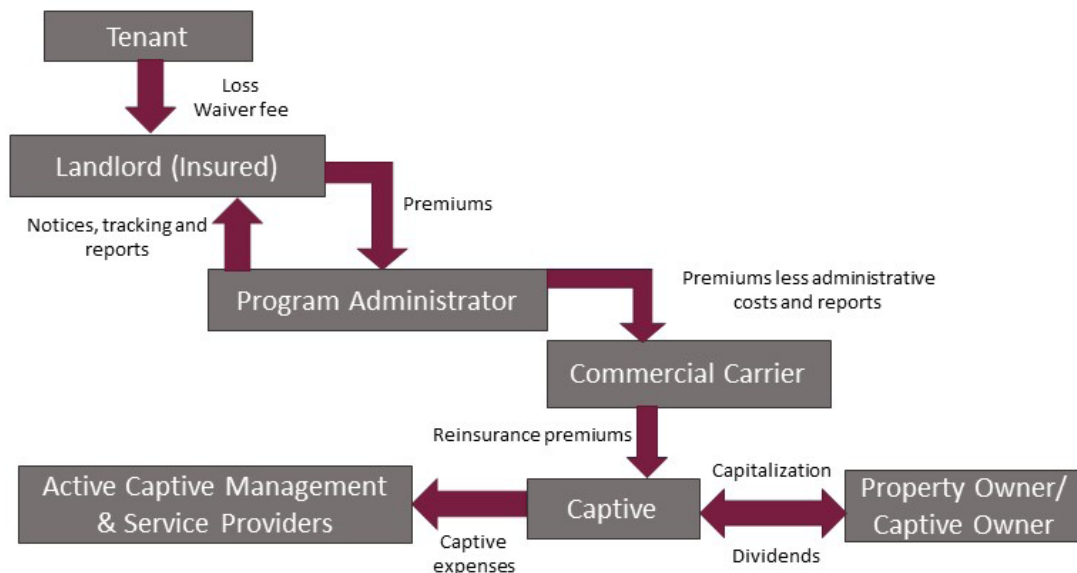
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# Tenant Legal Liability Program

## Tenant Legal Liability Captive Program Goals:

- ✓ Protect the landlord's property from losses caused by tenants.
- ✓ Potential to become a source of revenue.
- ✓ The owner may choose to add additional property and casualty coverages to their captive for the organization's risks not currently covered by the commercial market.



## How it Works\*

The program starts with a revision to the lease between the landlord and the tenant at move in or at renewal. The tenant is required to provide \$100,000 coverage to protect the landlord.

The tenant can choose the loss waiver program offered by the landlord in the tenant legal liability (TTL) program or they can purchase the required coverage commercially. If the TTL program is chosen, the tenant pays a fee for the loss waiver, typically collected monthly, included in their lease payment. The landlord then pays a premium to an admitted, A-rated commercial carrier to cover the loss waivers.

The commercial insurer may then reinsure a portion of the risk to the captive insurance company owned by the landlord. The owner of the property determines how much of the risk they want to reinsure to their captive.

\*Currently the program is under review in six remaining states. Approval is anticipated.



## Payment of Benefits

Provides protection for accidental tenant - generated losses for the basic perils, with policy limits of \$100,000 per occurrence (typically with a \$250 deductible).\*

Damages are paid in priority until the limit is reached:

1. To the community owner/manager for damage to the building.
2. To non-responsible, impacted tenants up to \$10,000 for their damage/loss.
3. To the tenant responsible up to \$10,000.

\*See policy details for specific and additional coverages.

## Tenant Legal Liability Insurance

- The community's lease or rental agreement provisions require the tenant to be financially responsible for their personal property and negligent acts by providing proof the landlord is an additional insured with their own commercial carrier or they can participate in this product.
- The Tenant Legal Liability (TLL) acts as a property damage loss waiver. The property damage loss waiver program is an innovative tool designed for the tenant to meet the indemnification obligation under the lease between the tenant and the landlord.
- The program covers five "perils" for accidental tenant-generated losses. They are:
  - o Fire
  - o Smoke
  - o Explosion
  - o Water discharge
  - o Sewage backups
- These perils account for 95% of the tenant-generated losses.
- Protection for a single occurrence has a \$100,000 limit and subject to a \$250 deductible and a maximum of 2 claims per year for an aggregate limit of \$200,000.
- The annual fees charged to the tenants are filed and approved by the state the property is located in. The rate allowed varies by state, generally they range from \$120 to \$145 annually.
- The property owner has input as to the extent of the risk they will reinsure to his captive and the limits and deductibles the tenants are required to cover.
- The lease consultant is not selling insurance to tenants, but offering tenant participation, under the community-based (TLL) option, to comply with lease requirements.



## The Captive

Active Captive Management provides all phases of risk analysis, company formation and ongoing captive management. The owner of the properties own the licensed captive insurance company. The owner provides the captive's initial capitalization to assure the captive is solvent. The premium less expenses are ceded to the captive with reserves held in a trust account at a financial institution determined by the captive owner (the trust must be at a NAIC approved bank). Reserve funds are released to the captive's investment account, at the captive owner's request, as surplus builds above the required reserves.

Ultimately, a captive insurance company owner benefits from the ability to assume risk and manage exposure and costs, without dependency on the commercial insurance market. Captive management services require a perfect combination of experienced talent to deliver an alternative risk solution that is fiscally sound and creative in insurance program design, as well as regulatory compliant. The Active Captive team provides expertise in all capacities essential to the structure, implementation and management of a viable captive. A captive may provide many advantages to the organization, such as:

- Capital preservation
- Access to reinsurance market
- Eliminate coverage limitations
- Risk management
- Owner financed risks / risk retention
- Customized deductibles for self-insured retention
- Structured approach to claims management
- Capture underwriting profit and investment income

The owner can further enhance their captive opportunity by filling gaps that may exist in their commercial P&C coverages, such as; earthquake, wind, cyber risks, wage and hour and employee practices liability. The underwriters at Active Captive Management will review the overall organizational structure of the captive owner and provide suggestions to augment the property and casualty coverages the captive can directly insure. The property owner may also purchase these coverages directly from their captive insurance company.

### Contact Us For Further Details



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