

VAIL RESORTS[®]
EXPERIENCE OF A LIFETIME[™]

Captive Discussion September 6, 2012

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VAIL



BEAVER CREEK



BRECKENRIDGE



KEYSTONE



HEAVENLY



NORTHSTAR



KIRKWOOD

ROCKRESORTS[®]

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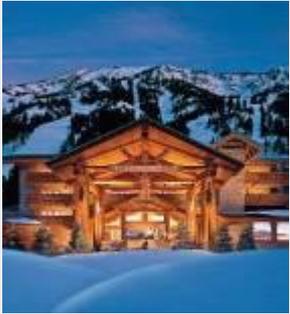


Vail Overview



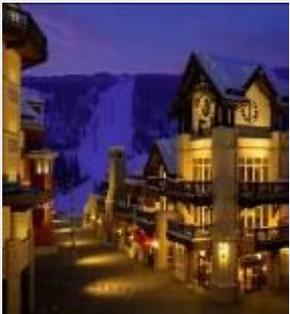
Mountain

- Seven world-class mountain resorts: Vail, Breckenridge, Keystone, Beaver Creek, Heavenly, Northstar and Kirkwood
- Sports Specialty Ventures



Lodging

- RockResorts Hotels
- Non-branded hotels
- Grand Teton Lodging Company - Wyoming
- Flagg Ranch - Wyoming
- 5 golf courses in Colorado and one (1) in Jackson Hole, Wyoming



Real Estate

- Vertical real estate development at the base of our mountain resorts
- Select number of luxury and ultra-luxury projects

“Note Just a Ski Resort Company”

Ancillary Businesses

- 100+ restaurants
- 150+ retail stores – golf, ski and outdoor equipment and clothing (Sports Specialty Ventures).
- Colorado Mountain Express – transportation company – providing transportation to our resorts.
- Mountain News Corporation, Ski Info – Two wholly owned subsidiaries based in Broomfield, CO and Norway respectively specializing in providing ski information worldwide.
- Manage and operate two national parks: Grand Teton and Flagg Ranch.
- Real Estate Development

Exposure Summary

- Approximately \$1B in annual revenues (and growing)
- 20,000 employees during peak season
- \$300M+ in WC payroll
- 1,300 vehicles
- 4,000+ lodging rooms

Black Diamond Insurance, Inc. (BDI)

- Wholly owned subsidiary – established August 1st, 2009

- Domiciled in Arizona
 - ✓ No premium taxes
 - ✓ Minimum initial capital requirements
 - ✓ Limited exclusions on types of lines of coverage the captive can underwrite
 - ✓ Easy to work with the state regulators (flexibility)
 - ✓ Location to Colorado

- Small captive - \$3M+ in gross written premium (growing)

- Lines of Business: 1) Workers' Compensation - \$400K excess of \$100K, 2) Loss Portfolio Transfer for past real estate projects, 3) Ski Pass Insurance 4) Travel Insurance and 5) Terrorism (Business Interruption)

- ❖ Ski Pass and Travel insurance are fronted by Travel Guard. BDI assumes 100% and 75% respectively

Why was BDI Established?

- Historically, Vail provided pass refunds to customers on an ad-hoc basis. There was no formal tracking mechanism on the amount of money being lost due to pass refunds
- Providing ski pass insurance adds value for the customer and refunds, except for rare exceptions, are no longer provided because the customer now has the option of buying pass insurance
- Position Vail to access the reinsurance markets directly during a hard market
- Provide a more formal risk financing mechanism
- Reduce insurance costs for future construction projects
- Immediate tax deduction on WC reserves
- Flexibility/formality in premium allocations
- Broader insurance coverage and flexibility
- Keep traditional markets on their heels.

Potential Future Uses

- Provide a layer of coverage for Owner Controlled Insurance Programs on future construction projects
- Provide Warranty insurance on future construction projects
- Corporate reimbursement for general liability losses within Vail's retention.
- Customer Rental insurance
- Loss Portfolio Transfer on future completed construction projects

Captive Challenges

- To qualify as an insurance company for IRS purposes, BDI must have 50% third party business. Vail is not structured to benefit from the brother/sister relationship so therefore it literally seek third party business.
- Fronting fees and admin fees paid to the fronting carrier are expensive which reduces the captive's net profit margin.
- Higher loss ratio on Ski Pass insurance program than expected.....losses you can't control.
- As the captive grows and the amount of capital/cash increases, senior management will pay closer attention since the cash is restricted cash. Benefits of the captive will have to be clearly identified and need to be continuous.
- Keeping up to date on tax regulations.

Actuarial Engagements

- Actuarial opinion/projections are statutorily required for verification/reasonableness of loss reserves.

- BDI engages its actuary three times a year:
 1. Third quarter of each fiscal year for WC projections.
 2. Fourth quarter of each fiscal year to project Travel and Ski Pass insurance for the following ski season.
 3. End of fiscal year – WC loss projections.

- captive will have to be clearly identified and need to be continuous.

- Keeping up to date on tax regulations.