Structure Type	Description	Pros	Cons
Dealer Cost	- Manufacturer or Retailer outsources all underwriting and potentially claim administration to an insurance company and third-party administrator (TPA). Some insurance companies and TPA's are vertically integrated so they do both. - Insurance company sets premium based on their calculations plus risk transfer costs and margin - Manufacturer or retailer includes their own markup on top of the dealer cost and sells contracts	- Simple structure - Transfers risk – risk is off the books of the Manufacturer or Retailer - Recognize all revenue when contracts are sold - Positive marketing spin of a program backed by a highly rated carrier - This may be a good structure for brand new programs or programs where there is little claim information available - This may also be a good place to start if 'you don't know what you don't know'	- Surrender cash - May have no visibility into claims data - Limited flexibility on pricing - Carrier can raise premiums at its discretion according to contractual agreement - No real insight into underwriting performance - No share of underwriting profits Surveys consistently demonstrate consumer preference for OEM and Retailer backed programs
Profit Share	- Similar to 'Dealer Cost' in many ways, but the carrier agrees to share underwriting profits - Profit share calculations are generated by the carrier according to their actuarial analysis and premium earning patterns - Claim administration may reside with the manufacturer or retailer but insurer controls approval - Amount and timing of profit share is negotiable depending on several variables, including what you know/don't know	- Share in underwriting profits can be large - May include more transparency into claims patterns and resulting rates - Risk transfer – risk is off the books of the Manufacturer or Retailer - Recognize all revenue when contracts are sold - Positive marketing spin of a program backed by a highly rated carrier	- Actuarial analysis is often significantly flawed, leading to higher costs, rates, and pricing than necessary - Smaller programs (<$1-2M annual premium) are often not eligible for profit share arrangements - Without cutting-edge risk oversight, the manufacturer or retailer will not understand hidden optimization opportunities
Captive (for a detailed overview, see our blog: "Captive Insurance 101")	- Manufacturer or retailer creates a wholly owned captive insurance company to hold its company-wide risk exposure - Can include warranty risk as well as: employee healthcare insurance, workers compensation, product liability, professional liability, etc. - The risk is often "fronted" by a carrier who issues a Contractual Liability Insurance Policy (CLP or CLIP) on behalf of the captive - Extended Warranty Programs are a good way to diversify a captive portfolio – often not something to create a captive for on its own.	- Tailored coverage to meet manufacturer's specific needs and risk profile - Significantly lower risk transfer costs – if fronted, results in a much lower 'risk fee' - Retains 100% of underwriting profits and investment income on unearned premium - Control of investment decisions - Immediate income recognition if fronted - Can have positive tax implications - More control over program elements such as pricing, features/benefits, timing of changes, etc.	- A more complex structure - Requires insurance and legal/compliance expertise - Requires new-age analytic and modeling capabilities to take full advantage of the benefits of this structure (this 'con' could also be listed on the 'pros' side!)
Warranty Company and/or Self-Insurance	- Manufacturer or Retailer sets aside a certain amount of money internally to cover claims - Generally, an insurance carrier is only used if required by various regulatory bodies.	- Simpler structure - Control cash – no payment to insurance company or captive - Much more flexibility on pricing, features/benefits, timing, etc. - Lower costs, higher margins	- Retain risk - Potential compliance risk - May not be a core-competency - Without carrier involvement, income may be deferred over the life of the contract