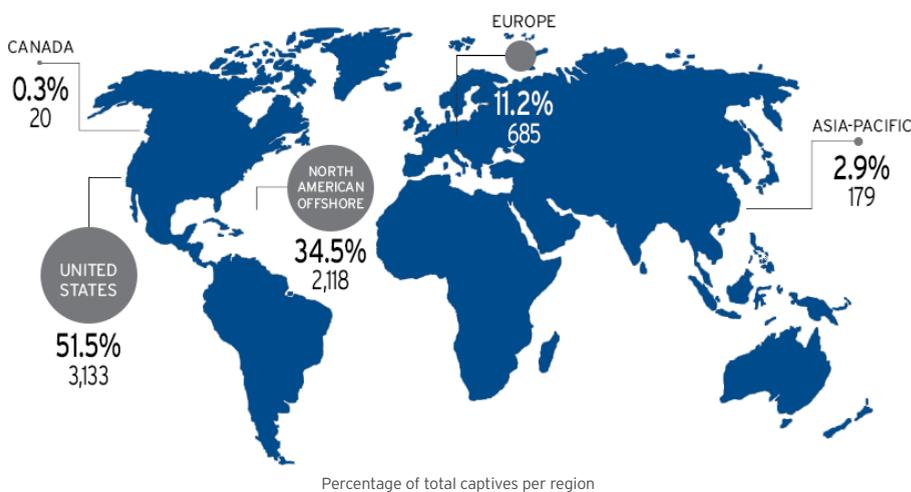


Captive Insurance: The Top 5 Benefits We See Driving the Trend

Captive insurance is an increasingly popular tool for many organizations, from major multinational corporations to nonprofits. This approach, essentially a form of regulated self-insurance, gives companies and other institutions a flexible and cost-effective tool to manage and finance risk.

For organizations, the nature of risk is always changing – a fact thrown into stark relief by the recent market cycle. As organizations look for ways to better manage the total cost of risk, captive insurance solutions have become a mainstream alternative or supplement to purchasing traditional insurance. More than ever, a growing number of businesses and nonprofit organizations – of all sizes – are seeking resourceful ways to gain greater control and underwrite their own risks, rather than simply paying premiums to insurance companies.

There were 6,135 captives in 2019, not including microcaptives, or individual cells or cell members in protected cell companies.



Source: Business Insurance 2020 Captive Managers and Domiciles

What Is Captive Insurance?

Captive insurance is where an organization creates a wholly owned subsidiary to self-insure the risks of the parent company (or companies). Captives can cover a wide range of risks; practically every risk underwritten by a commercial insurer can be provided by a captive, as well as new and emerging risks. Once established, the captive operates like any commercial insurance company, and it is subject to state regulatory requirements such as reporting, capital, and reserve requirements.

“Historically, captives were popular following times of disruption in the insurance marketplace because they can offer organizations more control over costs and coverage, and we’re certainly seeing that today,” says Ian Davis, head of Captive Insurance at People’s United. Davis, a longtime veteran of the sector, offered his insight into the top five benefits that prompt organizations to go the captive insurance route.

The Top 5 Benefits of Captive Insurance

While every organization faces its own unique circumstances, a few common benefits are often cited as a factor in the choice to create a captive. Indeed, in Davis’s experience, it’s the combination of these benefits that ultimately tips the scales. “Controlling their own destiny – that’s the bigger theme,” says Davis. These are the five most popular reasons he hears from captive owners:

1: “I like being able to match the coverage to our exact needs.”

Tailored coverage is definitely the top benefit for many organizations. The recent Covid-19 developments are a prime example of the specific risks that can upend one organization while barely affecting another. In setting up a captive insurance solution, organizations can tailor their protection to the exact and unique risks they face.

The Top 5 Benefits We See Driving the Trend

2: "We can capture some costs that would otherwise be lost with traditional insurance."

If you're paying premiums to an insurance company, some part of your premiums goes toward the insurer's overhead and some part to its bottom line. What's more, there's no refund to the insured in years where there are no claims or lower-than-expected claims. As such, captive owners can often drive cost savings. Such funds can be used as a secured loan back to the business, as a dividend, or to support broader risk-management programs and additional lines of coverage within the captive.

3: "I can count on pricing stability for our coverages."

For any insurance contract, annual renewal terms and conditions depend on the market environment. Particularly in so-called "hard markets" - when insurance companies have lower capacity and the premiums increase - changes in insurance pricing can introduce a lot of volatility to an operating budget. Regardless of an organization's size or type, many risk managers say that pricing stability is a key factor in their decision.

4: "We have control over our 'claims handling.'"

When working with an outside insurer, you're inherently at the mercy of the insurer's claims process. For some, a bad experience in that process is a key reason why they decide to switch gears and pursue a captive solution. Captives can be set up to administer claims on terms that take into consideration the nature of the parent company's business and claims-handling preferences, including whether to implement internal claims management or use an outside resource. These decisions can potentially drive further cost savings.

5: "It gets everyone on the same page with risk management."

Davis often hears from captive owners that they find the option to be surprisingly effective for their broader risk-management efforts. "We're all familiar with the incentives that come with ownership; owners take better care of the asset. With a captive, an organization 'owns' its own risks, and there's more incentive to manage and mitigate them," says Davis. Indeed, many captive owners say the structure leads to improved loss control and risk management practices, kicking off a virtuous cycle.

Why Service Providers Matter

In the process of setting up a captive, an organization is going to establish relationships with a wide network of new service providers - including attorneys, actuaries, underwriters, accountants, investment managers, and bankers who are responsible for the ongoing management and operations of the captive. According to Davis, the right partners have to hit three key strengths:

- Have the offerings you need
- Provide the level of service that makes your life easier
- Bring insights to the table to guide you

While captive insurance is a growing industry, it's still a brand-new undertaking to every business at the starting line. "It's akin to choosing the contractor for a renovation," says Davis. "The right one can make the process smooth and successful, while the wrong one is adding to your headaches instead of helping you." From the initial formation to ongoing operations, picking the right service providers will be crucial to running a successful captive for the long term. ■

At People's United Bank, we have a dedicated division serving captive insurance clients, with offerings that cover day-to-day banking needs through investment management. Reach out to learn more about how the captive insurance process works and the benefits it could offer to your organization.



Considering a captive insurance solution for your organization?

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