

Group Captives 101

Captive insurance companies are usually closely held reinsurance companies that have been successfully used by large corporations for many years. Captives have been used by these corporations to reduce and stabilize their insurance costs, provide much greater control, and in some cases, act as an additional profit center for the company.

There is little argument in the industry that captives can provide great benefits for their owners when managed and deployed correctly. There has been explosive growth in the captive industry over the past 25 years that has transcended the “hard” and “soft” insurance market cycles. The industry has grown from a little over 1,000 captives in the early 1980’s to well over 5,000 captives today. The latest trend has been to see group captives being formed for Health Benefits, banding together like minded corporations looking for new answers to aid in long term cost control. Some are being formed by firms (70 to 1000 employees) in similar industries to leverage their inherent advantage due to their staff demographics.

Group Captives provide benefits to mid sized companies that large corporations have been enjoying for many years. A group captive is a reinsurance company formed on behalf of a group of policyholder/members to insure a predictable amount of risk. Group

captives have been around since the late 1970’s and came to prominence during the hard market of the mid 1980’s. Since then there has been tremendous growth in this risk financing approach for mid sized companies.

The approach minimizes volatility while maximizing profit potential. Group captives offer mid sized companies coverage for worker’s compensation, commercial auto, and general liability coverages; property and other lines of commercial insurance are considered as well. The latest use for a group captive is to provide health benefits to the employees of the member companies. Most group captives will provide 100% ownership of all investment income and underwriting profit to the insured members. All services for the group captive are custom designed to benefit the members.

There are various components to a group captive. Examples are: claims processing, provider networks, underwriting and administration, loss control / wellness, investment service, tax services and captive fronting company / reinsurer negotiations. The components / services are all provided on an “unbundled” basis; where the best service providers are selected independently by the group captive members. This provides flexibility, stability, and diversification for the captive members.



Industrial Insurance Agency and its strategic partner, Alternative Risk Underwriting (ARU), provide the following products and services to middle market businesses:

- Worker's Compensation, General Liability, and automobile coverage for commercial businesses via captive and alternative risk financing solutions.
- Property, Umbrella and other coverage programs
- Development and design of group captive for homogeneous or heterogeneous insured's
- Development and design of alternative captive or risk purchasing groups
- Rent-a-Captive or agency captive alternatives
- Captive consulting and management of all components of the captive's reinsurance company.
- Captive board meeting services
- Captive domicile management, investment management, actuarial, and accounting partnerships
- Expert loss analysis and rating, underwriting management services
- Management and placement of fronting insurance carrier and reinsurance
- Claims Administration oversight and consulting
- Loss Control/Safety services oversight and administration
- Financial reporting and shareholder report administration
- Insurance Policy administration
- Ongoing new business & renewal support of the insureds (for coverages outside the captive)
- Training and informational seminars insureds and prospective clients

We, along with ARU, employ a sophisticated underwriting and rating approach to qualify potential members. Once potential members are thoroughly underwritten based upon their loss experience, safety programs, and financial condition – they are submitted to the group captive new business committee for final approval. All our group captives have an Executive Committee and various sub-committees populated by the member policyholders.

The premiums for the members are always based upon their own loss experience, plus expenses for reinsurance, and fixed costs. Pricing is never based upon insurance industry market cycles.

The key benefits of the group captive approach are:

Reduced cost – Members own 100% of investment income and underwriting profit

- Greater Stability – eliminates market cycle pricing philosophy
- Greater Leverage with insurers, reinsurers, and third party administrators
- Flexibility – Unbundled Services
- Greater Control and authority over service providers
- As an owner, having a real say in how services are provided and selected (investments, underwriting, claims & loss control, and other related services)

