AMWINS

Leveraging Captives for: Greater Control, Customization and Potential Cost Savings

For many businesses, the traditional route of paying premiums for insurance coverage is straightforward and offers adequate protection. However, in a hard market, especially for casualty, retail brokers may need a viable alternative to cover their clients' risks that can't find a home in the standard market. Enter captives.

A captive is a form of self-insurance that involves a company creating its own insurance subsidiary to insure its risks, allowing the captive owner or user to tailor their coverage to the needs of their business. It's a powerful risk management tool that offers greater control, customization and potential cost savings.

Captives have been around since the 1960s and have proven to be a tried-and-true risk financing mechanism for organizations of all sizes. They are medium to long-term solutions and thus are not specific to hard or soft markets. However, they do become more viable at certain points in the insurance cycle.

As the market hardens and prices increase, companies with good loss experience often find their premiums becoming disproportionately high versus a comparatively low loss rate. For instance, a company might question paying millions in annual liability premiums when it had less in losses over the past decade.

Captives offer a solution in such scenarios – one which retail brokers can provide to their clients along with a full range of options.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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When does a captive make sense?

The choice between a captive and traditional insurance depends on various factors, including the size of the company, the nature of its risks and its financial capacity.

Three main reasons for considering a captive include:

- The cost of insurance consistently exceeds the cost of claims
- Claims experience makes it hard to find affordable insurance
- Claims management by traditional insurers may harm the company's relationships

As companies grow, they often find themselves "dollar-swapping"— paying premiums that they get back in claims.

Traditionally, insurance works by pooling contributions from many to cover the losses of a few. However, for large companies, their contributions might end up covering their own losses because of the high volume of claims they generate.

Some companies prefer this, trusting the insurance industry's efficiency in paying claims. However, mid-sized to large companies may want more control over claims to settle them faster and to remain in line with their corporate culture. For example, they may set up a captive to manage workers' compensation claims quickly and fairly, enhancing employee satisfaction.

During a hard market cycle, clients with poor claims experience may struggle to get insurance or find meaningful risk transfer, which is where captives can come in.

What's the difference between owning vs. renting a captive?

While large corporations with significant resources might opt for a wholly owned captive, smaller companies can also benefit from captives by participating in group captives or rent-a-captives.

Renting a captive "cell" allows businesses to enjoy the benefits of captive insurance without the complexities and responsibilities of ownership. This can be a particularly attractive option for small- to medium-sized enterprises that have specific insurance needs but lack the resources to manage a captive on their own.

A "rent-a-captive" or "segregated cell company" allows third parties to rent a cell from the owner of the insurance company, benefiting from a captive solution without the added responsibilities of full ownership. Such cells are fully segregated from all other cells in the company, ensuring the assets and liabilities of the cell owner are ring-fenced from others in the structure.

For businesses with substantial and recurring risks, such as companies with large fleets of vehicles or numerous employees, traditional insurance can become less effective. For example, a trucking company might rent a captive cell to issue excess liability policies. Between paid in capital, premiums contributed and collateral (usually letters of credit), the policy limit is fully secured. The insurance company owner bears no additional liabilities beyond what the renter has funded.

In essence, renting a captive means using an existing insurance company's infrastructure while fully securing your liabilities.

Navigating the complexities of captives

Navigating the complexities of setting up a captive can be daunting. And retail brokers may struggle to get the attention of captive specialists, who often require a paid engagement. This makes it hard for brokers to deliver value to their clients.

This is where Amwins comes in. With our extensive relationships with insurance companies, fronting insurers, claims administrators and captive managers, we are able to provide invaluable support to retail brokers who may not have the expertise to set up captives independently.

As your wholesale partner, Amwins offers a unique captive service and has relationships that allow us to bring the right parties together and create tailored solutions. This support puts you on the same footing as top international firms, and helps you deliver comparable services to your clients.

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