

# Why Group Captives? Why Now?

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## Basics of a group captive

### Methods of managing risk





# An **insurance** company that provides insurance **tO** and is **controlled** by its owners.

### **Group captive**

#### **Benefits**



Cost control, cost efficiency, and cost stabilization



Premiums paid to insurance entity that members own 24 22

Member shares in the underwriting and investment profits



Superior loss control and claims administration



Control — You own it!

### **Group captive**

#### Why are your costs lower?

- Premiums based on your loss experience
- Insulated from market conditions
- Operating costs are lower
- Only good risks are accepted
- Enhanced loss prevention and claims management
- Insurance premiums are invested and can accumulate income to the captive



## **Coverages provided**

WC, AL, APD, GL

- Workers' compensation excludes monopolistic states ND, OH, WA, WY
  - Statutory
  - Employers' liability
- Automobile
  - Liability
  - Physical damage
- General liability
- \$2mm primary limit

Has the exact look as traditional insurance



#### A reinsurance company behind an 'A' rated fronting company



#### How is the captive protected?



### How is the captive protected?

J			
\$2m			
	Specific protection		
\$500k			
	\$150,000		Aggregate
\$150k			protection
↑ \$0	\$400,000	\$400,000	

**Collateral – member to member protection** 



### **Sample member**



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### **Operating costs**

#### **Detailed**

Reinsurance	\$119,391	14.29%	
Front	\$23,811	2.85%	
Premium tax	\$40,939	4.90%	
FET	\$7,352	0.88%	
Claims	\$35,508	4.25%	
Risk control	\$8,355	1.00%	
Broker	\$12,532	1.50%	
Off shore exp	\$29,242	3.50%	
Variable exp	\$8,355	1.00%	
	\$285,485	34.17%	

# Loss examples: Anticipated year of losses

#### Anticipated loss year: \$190,000 of total claims — All losses less than \$150,000



### "Anticipated year" results

### Accounting

Estimated return	\$385,000
Estimated interest	\$25,000
B fund*	\$150,000
A fund	\$210,000

## Loss examples: Catastrophic claim year

## Catastrophic loss year: \$190,000 of total claims — All claims less than \$150,000 and a \$1,000,000 catastrophic claim



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## Catastrophic loss year: \$190,000 of total claims — All losses less than \$150,000 and a \$1,000,000 catastrophic claim

Reinsurance				Catastrophic claim
				\$350,000 <u>(150,000)</u>
\$500,000	)		B fund accounting	\$ 200,000 shortfall
	B fund	\$150,000 <u>(150,000)</u> \$0	Beginning balance Ending balance	
\$150,000			A fund accounting	
	A fund	\$400,000 (190,000) <u>(150,000)</u> \$60,000	Beginning balance Total claims less than \$150,000 1 <sup>st</sup> \$150,000 of catastrophic claim Remaining balance	

## Catastrophic loss year: \$190,000 of total claims — All losses less than \$150,000 and a \$1,000,000 catastrophic claim

	Reinsurance			Catastrophic claim \$350,000 (150,000)
\$500,000			B fund accounting	\$ 200,000 (60,000)
	B fund	\$150,000 <u>(150,000)</u> \$0	Beginning balance Ending balance	\$140,000
\$150,000			A fund accounting	
	A fund	\$400,000 (190,000) <u>(150,000)</u> \$60,000 <u>(60,000)</u> \$0	Beginning balance Total claims less than \$150,000 1 <sup>st</sup> \$150,000 of catastrophic claim Remaining balance Additional for catastrophic loss Remaining balance	

## Catastrophic loss year: \$190,000 of total claims — All losses less than \$150,000 and a \$1,000,000 catastrophic claim

	Reinsurance			Catastrophic claim \$350,000 (150,000)
\$500,000			B fund accounting	\$ 200,000 (60,000)
	B fund	\$150,000 <u>(150,000)</u> \$0	Beginning balance Ending balance	\$140,000 shared risk
\$150,000			A fund accounting	
	A fund	\$400,000 (190,000) <u>(150,000)</u> \$60,000 <u>(60,000)</u> \$0	Beginning balance Total claims less than \$150,000 1 <sup>st</sup> \$150,000 of catastrophic claim Remaining balance Additional for catastrophic loss Remaining balance	

## Loss examples: High frequency year

High frequency year: \$550,000 of total claims — All losses less than \$150,000 each



"High frequency" year

### Accounting

Estimated cost for \$150,000* of additional frequency claims	\$15,000
Adjustment paid	(150,000)
Estimated return	\$165,000
Estimated interest	\$15,000
B fund balance	\$150,000*

**Note:** \*Experience adjustment paid in a 3-year installment plan.

## Experience adjustments and collateral

### Frequency fund adjustment (assessment) Example



### **Collateral**



#### Collateral

- Cash
- Letters of credit



#### **Collateral functions**

- Member to member obligations
- Capitalizes the captive
- Collateralize policy issuing insurer

### **Collateral requirements**



### **Collateral requirements**

#### Assume A equals \$400,000 each year



## Next steps

## **Group captive journey**

**Follow-up suggestions** 

- Model historical performance: Estimate historical costs as if you had been in a group captive in past 5 years
- Claims: Meet with the captive's third-party administrator to discuss claims handling philosophies
- **Ownership**: Meet with some current members
- **Financial**: Review the captive's financial statements
- **Safety roundtable**: Attend this 2-day agenda packed meeting to better understand pre- and post-loss strategies. Semiannual in central USA
- Board of Directors meeting: Attend a semiannual board meeting

### **Contact information**



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