



MARSH

Using captives to unlock value in affinity insurance programs

This report is written by the Open & Embedded Insurance Observatory in partnership with Marsh Risk.

Introduction

Many organizations face the challenge of providing tailored insurance solutions that meet the unique needs of their customers or members and enhance overall customer experience. Securing specialized coverage at an affordable rate can be demanding, often leaving organizations with limited options and higher costs. This not only strains budgets but also hampers their ability to offer competitive, value-added benefits that foster loyalty. Additionally, managing multiple insurance programs independently can be resource-intensive, creating operational complexities and diverting focus from core business priorities.

Without deep insights into customer needs, behaviors, and risk profiles, organizations struggle to implement effective risk management strategies. This lack of data can hinder efforts to improve retention and differentiate themselves in competitive markets. For many, these pain points highlight the need for a smarter, more efficient approach — one that leverages group buying power and provides tailored solutions to meet specific needs.

An affinity insurance program within a captive offers a strategic way to address these challenges, turning them into opportunities for growth, customer loyalty, and operational efficiency and in some cases making the core product or service (which would be the subject matter of the insurance) more affordable to a broader pool of customers.

This report explores how integrating an affinity insurance program within a captive can deliver strategic advantages for organizations. By leveraging group buying power and tailored risk management, companies can reduce costs, enhance loyalty, and streamline operations. We will analyze the key benefits, implementation considerations, and sector-specific opportunities, including regional insights into Europe, Asia, and Latin America, to help organizations make informed decisions about whether to consider transferring an affinity insurance program to a captive, or building one from scratch.

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Part 1

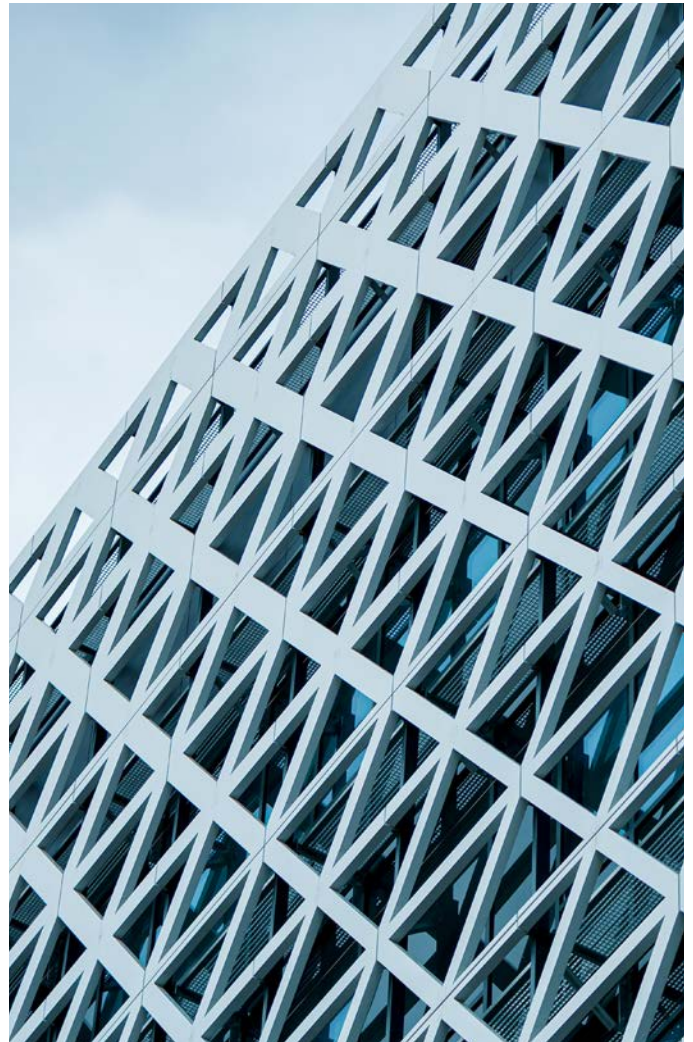
Affinity insurance

Affinity insurance program

What is affinity insurance?

An affinity insurance program is a tailored solution developed in partnership with an organization to address the specific protection needs of their members, consumers, franchisees, or small to medium-sized enterprises. Additionally, when securing specialist coverage is challenging or costly, purchasing affinity insurance through a group with greater buying power can be advantageous. This approach enables organizations to negotiate better rates, terms, and lower premiums based upon performance.

Designed to align with the organization's goals, the program can be distributed directly through the organization's sales channels or seamlessly embedded into an online sales journey. Coverage is relevant, accessible, and tailored to the unique risks faced by the target group, providing a strategic advantage for organizations seeking to enhance value, brand image, and loyalty.



Key benefits of affinity insurance:

1

Revenue expansion

Create additional income sources to boost your financial performance.

2

Unique market positioning

Differentiate your offerings by providing added-value insurance products that set you apart.

3

Sales growth

Strengthen your product appeal and open doors to new sales channels.

4

Enhanced brand engagement

Foster stronger customer or member loyalty through tailored products and services.

5

Higher customer retention

Gather valuable insights to improve service quality and retain clients.

An affinity insurance program can be applied across a number of industries, covering a wide range of products. The most common products include:

Accidental damage Theft	All risks Liability	Business protection	Payment protection
Cyber/data security	Directors and officers (D&O)	Employee benefits	Employer's liability
Event cancellation	Extended/ manufacturer warranty	General liability	Group life Involuntary loss of employment
Group personal accident	Home assistance	Machinery breakdown	Motor vehicle and ancillary
Product and public liability	Professional indemnity	Travel	

Captive insurance solutions

In recent years, captive insurance has become an increasingly common way of managing the risk of an affinity program. A captive is a risk management tool and legal entity that enables an organization to better control its risks and costs, as well as pricing and claims.

It serves two main purposes: to identify and manage the risk, and to fund it. Once the risk and the organization's risk appetite have been determined, then they can work out how to manage and finance it through striking a balance between risk retention and risk transfer.

Captive insurance can be used to cover potentially any risk pertaining to any organization situated around the world. This includes a range of organizations, including non-profits, small and medium-sized enterprises, associations, corporates, and multinationals. Captives are particularly well-suited to multinational companies due to the diversity of risk and geographies that they can cover. By centralizing the risk they are exposed to in multiple jurisdictions within one captive, they can benefit from risk diversification and better manage their risks. Additionally, the captive enables them to reduce dependence on the direct commercial insurance market and obtain reinsurance, should they require it.

Captive insurance functions

Risk management: Enables businesses to manage risk by creating a subsidiary for underwriting insurance.

Customization: Provides tailored insurance solutions for specific company needs.

Cost control: Potentially reduces premiums and retains more risk within the organization.

Cash flow benefits: Premiums paid to the captive could be invested while waiting for claims to be paid. Profits built up in the captive could also be distributed back to the parent, thus making the captive a profit center in its own right.

Access to reinsurance markets: Direct access to reinsurance markets for better coverage terms, risk mitigation, and pricing.

Key benefits of captive insurance:

1

Cost efficiency

Pooling risks across members and countries can lower overall insurance costs due to the power of group purchasing, compared to traditional insurance purchases in each market.

2

Regulatory flexibility

Establishing captives in the best domicile for your organization may allow for less restrictive capital and reserve requirements.

3

Tax benefits

Potential tax advantages, such as premium deductions and profit retention, depending on the jurisdiction.

4

Claims control

Greater control over claims processes ensures alignment with corporate policies and risk management strategies.

5

Stability in pricing

Provides more stable insurance pricing over time, beneficial for multinationals in fluctuating markets.

Captive insurance: A strategic tool for affinity programs

Key considerations

Captives come in several different forms, including single-parent, cell (protected cell company), group, and risk retention groups, as well as hybrid. They all provide financial flexibility and the ability to customize risk financing solutions.

When deciding on the right type of captive, it's key for an organization to consider the jurisdiction's regulatory framework. It's also important to take into account the cost implications of each structure to align with its financial goals and to understand the specific risks faced by the affinity group.

Captive insurance structures

Single-parent: A standalone subsidiary owned by a single company, insuring or reinsuring only risks of its parent and/or its subsidiaries (or its employees, if it is related to healthcare and other benefits).

Cell (protected cell company): A single legal entity made up of a core and separate individual cells, where the assets and liabilities in each cell are totally segregated from the core and the other cells. Each cell is owned by a parent company and connected to a core, which supports the cell. The core carries out all the required administration, compliance, and risk management for all the cells. In some instances, surplus capital in the core can serve to manage temporary solvency shortfalls in the cells (subject to restrictions).

Group: Owned by multiple, often unrelated entities, allowing them to pool their own risks and create greater long-term cost stability, versus traditional insurance.

Risk retention group: Only available in the US, a type of group captive created under the Federal Liability Risk Retention Act of 1986, specifically for covering liability risks for members within the same industry.

Hybrid: Combines elements of different captive structures for flexible risk management and coverage. Tailored to meet specific needs of affinity groups, accommodating various risk profiles.

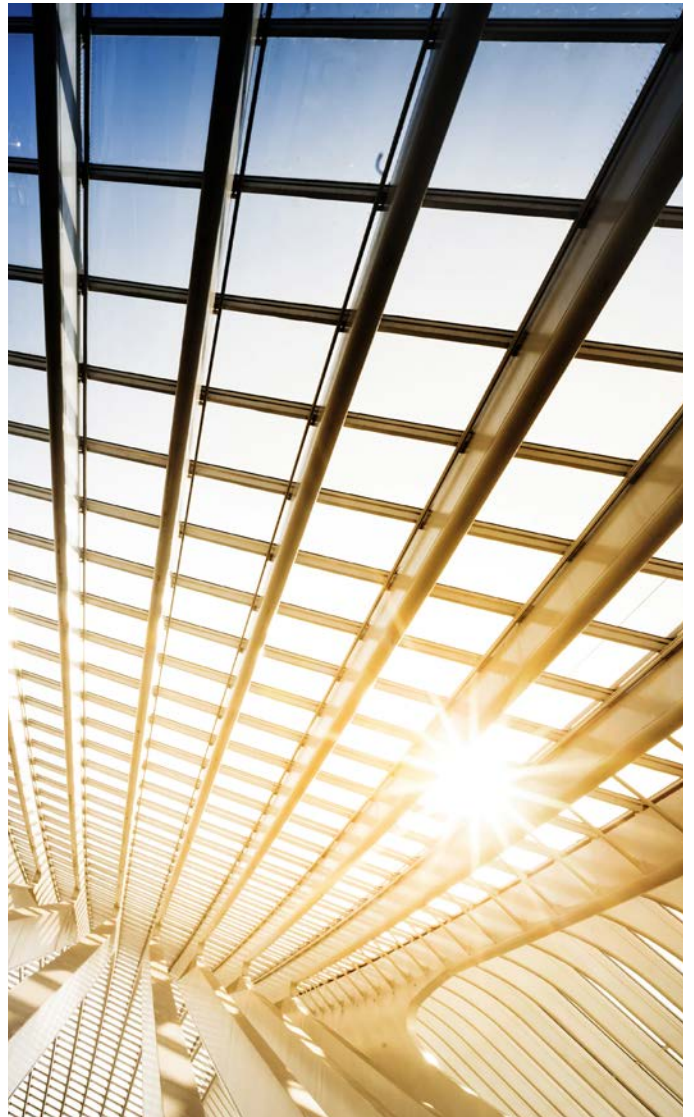
Benefits of captive insurance for affinity programs

Managing risk and costs

There are a multitude of benefits that affinity programs written through a captive can deliver. Chief among them is their flexibility and ability to customize the coverage to meet their particular needs and target market.

Used within a captive, an affinity insurance program can provide long-term pricing and coverage stability. The captive can be used to set premiums, while an affinity program can be used to add value to the core offerings, while also increasing sales.

A captive used for writing affinity insurance is well-suited to a range of industry verticals, particularly organizations with a large customer base, as a means of retaining them for as long as possible. Among the most aligned industries are manufacturing, where there's an extended warranty risk and the insurance is directly linked to the product being delivered; telecommunications, where an insurance product is wrapped around the contract to protect the customer in the event that their device gets damaged, lost, or stolen; and financial services, where an insurance product provides financial protection in case an unexpected event occurs.



Benefits of writing affinity insurance through a captive:

1

Diversification of revenue :

Adds new revenue streams and helps grow the bottom line.

2

Differentiation of offering:

Stands out with a product that delivers more for customers.

3

Increased sales:

Enhances the value proposition of products and unlocks new opportunities.

4

Improved brand loyalty:

Delivers products and services that keep customers coming back.

5

Improved customer retention:

Gathers more data on services provided and improves retention.

6

Protection of the group's balance sheet:

Reduces bad debts by offering accident, sickness, and death benefits to customers receiving financing, as they will be better able to meet their payment obligations.

7

Quicker claims turnaround:

Safeguards the group's revenue and is particularly relevant in cases such as phone insurance or franchisee protection.

Affinity insurance industry verticals suitable for a captive:

Automotive and mobility

Consumer electronics

Education service providers

Equipment and heavy machinery

Financial institutions

Professional and trade associations

Real estate and construction

Retail, buying, and franchise groups

Sharing economy and platforms

Sports, entertainment, and media

Telecommunications

Utilities



How to establish an affinity insurance program in a captive

A key starting point to establish an affinity program is to engage with a specialist insurance broker or advisor, such as Marsh Risk, that has extensive knowledge and expertise of the market and to determine the main risks and challenges that both it and its target market face, as well as the opportunities it can capitalize on. Next, a feasibility study is conducted, looking into whether the business plan is economically viable and to decide who will carry the risk, including whether the company also wants to participate in the program.

Enlisting the help of a broker can help an organization to overcome the complexity involved in setting up an affinity program and to find the right structure and captive manager. Brokers can also help with the design and marketing of the insurance product to its target audience, in addition to constantly monitoring and evaluating its performance to ensure that the program is both sustainable and delivers customer value.

Alongside the organization's parent company, broker, and captive manager, there are several other key players involved in establishing and running the

program. There are the commercial insurers who provide the distribution network for the program, and the knowledge and expertise on distribution channels and regulatory pitfalls, as well as the legal advisors and external risk management consultants, all with oversight from the regulatory authority.

In addition to the key stakeholders, it's vital to have in-house experts who both understand the plan and can implement and manage it effectively. The captive manager will be responsible for running the insurance company, including having compliance specialists and actuarial experts on hand for your in-house team, if they're not already part of the insurance management function.

Effective collaboration between these different parties is critical to both establishing and managing a successful captive program that meets the unique needs of the affinity group, enhances risk management practices, and provides cost-effective insurance solutions.

How to establish an affinity program:

1

Engage a broker and key stakeholders.

2

Assess your key risks and desired outcomes.

3

Develop a business plan.

4

Engage with a captive manager in order to carry out a feasibility study.

5

As part of the engagement, select the affinity group and captive structure, and potentially amend the business plan.

6

Design and market your insurance product.

7

Implement risk management strategies.

8

Monitor, evaluate, and report on the program's performance.

Key players in a captive program:

Broker:

Acts as an independent advisor to the customer, assessing which insurer best meets its needs and helps to build the insurance program.

Insurer:

Assumes the risk of claims under the program and sets the cost and terms.

Captive manager:

Responsible for the day-to-day operations of the captive.

Actuaries:

Provide expertise in assessing risks and determining premiums.

Legal advisors:

Ensure compliance with laws and regulations when establishing and operating the captive.

Risk management consultants:

Provide expertise in identifying and mitigating risks.

Regulatory authorities:

Oversee the captive's formation and running.

Governance structure of a captive:

Board of directors:

Responsible for overall governance and strategic direction of the captive.

Captive manager:

Manages day-to-day operations of the captive.

Risk and compliance committee:

Focuses on identifying and mitigating risks.

Technical/product oversight governance committee:

Provides specialized expertise in areas such as underwriting and regulatory compliance.

Service provider:

External entities that support the captive's operations, including insurance brokers, actuaries, legal advisors, and auditors.

Member engagement:

Engages affinity group members to ensure the program meets their needs.

Regulatory oversight:

Regulatory authorities ensure compliance with insurance laws and monitor the captive's financial health.

Part 2

Regional overview of captives

Asia

The Asian captive sector has grown significantly since 2017 due to the hardening of the traditional insurance market, as rates for almost every line of business increased.

Many organizations with secondary operations in Singapore have decided to establish or move their captive to Singapore due to its reputation as a wellregulated market.

In recent years, Labuan, Hong Kong, and the Cook Islands have also emerged as viable captive domiciles. Labuan and the Cook Islands have the advantage of providing regulatory flexibility and allowing extended warranty business to be written by captives. Labuan also allows protected cell captives to be formed.

Most Malaysian companies that have formed captives tend to do so in Labuan due to its convenient proximity. The Cook Islands are a natural fit for New Zealand entities for regulatory reasons. Singapore typically attracts Australian companies due to the change in regulation in their homeland, which made it disadvantageous to be domiciled there. There has also been a rise in the number of Chinese firms establishing captives in Singapore and Hong Kong.

As property damage and business interruption are relatively more expensive than casualty risks in Asia, more of that business is written in captives compared to casualty.

Despite the uptick in Asian captives, however, their use for affinity programs is currently relatively small. They are mainly used in the banking sector and by manufacturers, but new opportunities are also emerging in motor insurance and employee benefits.

Several barriers to entry are specific to Asia, too, including local governments requiring fronting by authorized insurers that then reinsure into the captive. In a number of cases, the captive cannot write directly on a non-admitted basis.



Europe



The use of captives for affinity programs in Europe has become increasingly widespread due to freedom of services, meaning that organizations can use captives in most jurisdictions across the region to write their business with minimum frictional costs. That growth was exacerbated by the hardening market since 2019, which resulted in Marsh Captive Solutions helping its clients form approximately 500 captives. This is mainly driven by organizations seeking to secure suitable coverage, capacity, price, and terms and conditions, as well as to protect their profits and support their growth.

Malta is one of the leading EU domiciles for captives writing affinity insurance, with its 20-plus years of knowledge and experience, and a legislative framework that offers an array of different captive structures that are fully Solvency II compliant, making it easier to place the business on a pan-European basis. Other significant captive domiciles include Sweden, Luxembourg, and Ireland.

France is leading the way in terms of new and emerging European domiciles, having successfully implemented its captive legislation in 2023. This year, Marsh reported that the country has about 20 registered captives. There's also an increasing trend of countries establishing captive regimes to provide local companies with a home domicile. Among the organizations looking to set up captives are mainly government entities, advisory and law firms, and local association members.

There's also a move towards businesses owning multiple captives, with 15% of large companies with \$25 million-plus in gross written premiums owning more than one risk retention vehicle.

UK

Currently, the UK's largest captive domiciles are the Isle of Man and Guernsey. Today, according to Marsh data, of its 1,900 captives, around 10% to 15% have an affinity program, which collectively write more than \$4 billion in gross written premiums.

The UK government has also confirmed it will introduce a new captive insurance framework, following the conclusion of its recent consultation. It added that detailed regulatory rules will be developed by the Financial Conduct Authority and the Prudential Regulation Authority, including proportionately lower capital and reporting requirements, and faster authorizations for captive insurers.



Latin America



While Panama is the only captive domicile currently in Latin America, some organizations in the region have formed captives in Bermuda, the Caribbean (Barbados and the Cayman Islands), Europe (Luxembourg) and, more recently, the US (particularly in Vermont). The main reason for this is due to the significant tax and regulatory hurdles they face, particularly in countries such as Argentina, Brazil, Colombia, and Costa Rica, and the fact that there's no existing captive legislation in their home countries.

While there are some instances in which a captive could be registered as a foreign reinsurer in certain countries, such as Colombia and Mexico, there are many steps they have to go through and requirements they have to comply with as a result. One of these is being required to have a financial rating. Also, the significant collateral requirement to form a captive is another sticking point for many organizations.

In the last couple of years, Latin American organizations have shown increased interest in using captives for affinity programs, particularly in the manufacturing, bancassurance, and sharing economy sectors. In manufacturing, this takes the form of extended warranty and guarantee products. In bancassurance, it's additional insurance and protection, while in the sharing economy, it's ondemand coverage and additional benefits.

Part 3

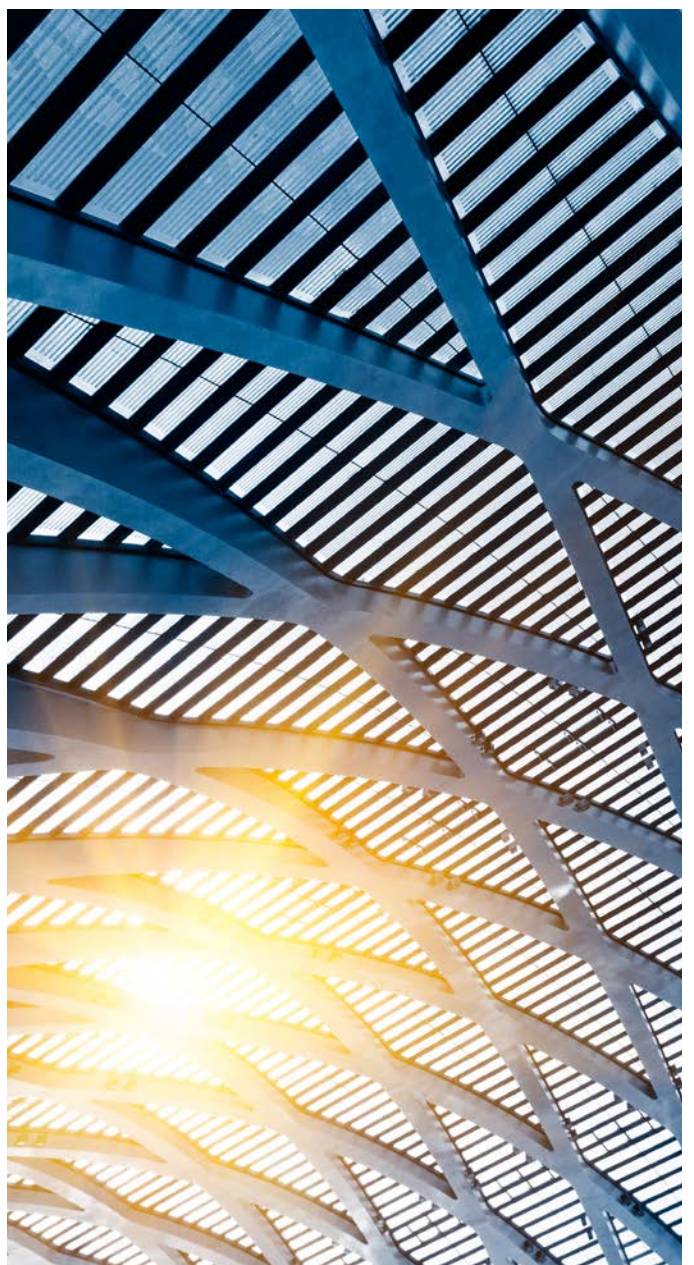
Future trends

Looking to the future

Moving forward, it will be key for affinity insurance programs using a captive to continue to harness digitalization and new technological advancements to increase customer penetration rates and bolster compliance. It's also critical to offer customers the preference of digital communication. This ensures better and more compliant interaction, ultimately reducing the frictional costs and improving the profitability of the captive, while passing those savings onto the customer in the form of lower premiums and sustainable insurance products.

Risk management practices

Captives also enable greater advanced risk management through tools such as predictive analytics and artificial intelligence integration. They can be used to track premium and claims data over time and break it down to a more granular level, allowing organizations to analyze it in greater detail to learn more about their loss experience and how their product or service is performing, and, ultimately, pass on discounted premiums to their end users.



How captive insurance enables advanced risk management:

Data collection and analysis:

Aggregates data from members to create a comprehensive database for analyzing risk patterns trends. Analyzes historical claims and member-specific data to develop detailed risk profiles for accurate risk assessment.

Predictive analytics:

Uses historical data to forecast potential risks and losses. Identifies high-risk areas to develop targeted risk management strategies specific to the affinity group's needs.

AI integration:

Streamlines claims processing by automating routine tasks, reducing administrative burdens and speeding up response times. Analyzes claims data in real-time to identify patterns of fraudulent activity. Creates personalized insurance products and risk management solutions based on individual member data.

Continuous monitoring and improvement:

Provides real-time insights into emerging risks. Establishes mechanisms to refine risk management practices based on previous claims and assessments.

Enhanced member engagement:

Develops educational programs to promote awareness of risks and best practices for mitigation. Offers tailored tools and resources to help members manage specific risks effectively.

Cost efficiency:

Establishes more accurate premium pricing based on actual risk; and optimizes resource allocation for risk management initiatives, focusing efforts on significant risks.

Conclusion

Key takeaways and recommendations

- Multiple types and structures of captives can be used to write affinity insurance across a wide range of industry verticals.
- Using a captive to write affinity insurance delivers a host of benefits, including diversification of revenue, differentiation of offerings, increased sales, improved brand loyalty, and customer retention.
- Engaging an insurance broker, such as Marsh Risk, is a vital first step in establishing a captive for an affinity insurance program.
- There is a wide variance in the maturity and effectiveness of captive domiciles across different regions.
- Digital advancements will be key to continuing to deliver successful affinity insurance programs.

The Marsh Risk Solution

At Marsh Risk, we can deliver an end-to-end affinity insurance program written within a captive to meet your specific needs. By using our decades of experience, we will apply proven methods and techniques to provide you with the solution to meet your requirements.

We will evaluate whether an affinity insurance program within a captive is the right fit for you, by first learning about your customer base and sales journey. We'll also assess your risk partners and digital capabilities; leverage marketing and data analytics; understand your claims process; and highlight any regulatory issues involved within your chosen domicile, in order to deliver results.

Why Marsh Risk Affinity?

With over 30 years of experience, the Marsh Risk Affinity team operates in more than 60 countries and is dedicated in building and implementing affinity insurance programmes. We will co-create the solution with you by understanding your business objectives and pain points, then execute a programme in an agile and transparent manner.

Our key sectors include automotive, equipment and consumer electronics, franchise and buying groups, utilities and financial institutions, and sports and entertainment.

Why Marsh Risk Captive Solutions?

Marsh Risk Captive Solutions boasts a dedicated team of over 600 professionals specialising in captive management and risk financing for approximately 2,000 captives and risk-bearing entities globally. With five decades of industry-leading expertise in captive programme design and management, our experts are positioned in offices around the world, holding licenses in over 55 major captive domiciles. We are committed to delivering innovative solutions that meet the evolving needs of our clients.

Contact us

To learn more about affinity insurance within a captive structure, please speak to one of our advisers.

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