RISK MANAGEMENT

What is Captive Insurance?

Defining Captive Insurance

A captive is a licensed insurance company fully owned and controlled by its insureds - a type of "self-insurance." Instead of paying to use a commercial insurer's money, the owner invests their own capital and resources, assuming a portion of the risk. The balance is assumed by another insurance company known as a "reinsurance" company. This can mean higher risk when large claims occur, however, it can also save premiums for small claims because the company retains the money otherwise paid to traditional insurers. Captives and reinsurance companies often offer a more limited breadth of coverages and fewer binding regulations than traditional insurance companies, making them attractive to companies that face unique vulnerabilities traditional insurers won't cover.

Advantages of Captive Insurance

Captives are typically formed for the purpose of risk management. A business can substantially lower insurance costs in comparison to premiums paid to a commercial insurer and the captive can provide coverage that is unattainable or inadequate in the private market. In addition to the opportunity to obtain more specialized coverage for the company's risks, the parent company can achieve better control over claims decisions. Other benefits include:

- **Capital:** A company with a clean loss history for the year may still experience increased premiums with a commercial insurer because of a poor investment market or the overall volume of claims processed by the insurer. A well-operated captive can become profitable while insulating against risk.
- **Control:** Companies that utilize captive insurance have more control over safety, losses, and claims administration. The captive model also incentivizes safer workplaces and behaviors because the capital belongs to the company.
- **Coverage:** Companies who suffer an unfavorable loss history, or simply operate in high-risk ventures, may have difficulty obtaining coverage in the open market. Captive insurance can offer tailored insurance unique to the business's risk exposures.

Who Uses Captive Insurance?

The best candidate for a captive program is typically a company with steady cash flow, high insurance premiums and low claims frequency. A company wishing to combine its overall enterprise risks, such as employee benefits, healthcare and workers' compensation, is also a suitable candidate for captive insurance. Captive insurance is also appropriate for companies with:

- Leadership that needs or wants asset protection
- Sustainable operating profits of $500,000 or more
- A desire to reduce their reliance on commercial insurance
- A diverse workforce with varied medical needs and preferences

Captive insurance is an option worth exploring if your company is looking for a way to insulate itself from risk that the commercial insurance market can't cover. A properly designed policy can provide many advantages and alleviate your company's exposure to risk.

Next Steps

As seasoned industry professionals, we understand how to reduce your "net cost of risk." We'll review your prior exposures (payrolls, sales, vehicles and equipment) and compare it with your historical claims, then help you determine the best path to lower your net cost of risk and increase your bottom line.

Let's Talk

Find out how EPIC Insurance Brokers & Consultants can help your business.

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