

What Makes a Successful Captive

Last month we covered what we should be expecting to see in the coming year in terms of the captive insurance market. In part, we discussed the fact that increasingly more companies are looking to captives for healthcare solutions and emerging risks such as cyber. Captives are also increasingly being used to insure employee benefit risks for active and retired employees, including for life, disability, accident death and dismemberment benefits and medical stop loss. With more companies looking for alternative solutions to traditional insurance, it's important to review with your clients what makes a successful captive. Following are some of the factors that contribute to making a captive work.

- Captive owners should focus on the risks they understand best – their own. They can also benefit from risk diversification either through a sizeable exposure base or by incorporating a number of coverage lines with limited correlation.
- A successful captive program is measured by its underlying loss experience, which means managing underwriting results through targeted and rigid loss control and safety programs.
- Some captive programs cannot operate or grow without adequate fronting and/or reinsurance support. In this case, captive owners should look to identify fronting insurers or reinsurers with whom they can partner with strong financial standing. A strong balance sheet is a good indicator of a partner's ability to handle risk and be there for the long term.
- Most successful captive programs have financially sound parent(s) or insureds with the ability to pay the premium for the risk insured annually and provide additional capital for growth or to weather bad years.
- Successful captives are formed for true and identified risk management reasons. Those that are established only for tax reasons rarely will survive over time.

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- It's critical that prospective captive owners retain strong business partners with extensive industry knowledge of the captive's parent as well as a good understanding of the captive industry and how it is evolving.
- The captive should be managed and viewed as an ongoing entity. Depending upon the coverage lines insured, the success of a captive may not be quantifiable for five or ten years – perhaps longer.
- Captives should be evaluated regularly to ensure efficient management of retained risk across the enterprise.

A well-planned and carefully managed captive can both achieve its full potential and be in a position to adjust to changing risk needs. At Caitlin Morgan, we specialize in setting up many different types of captives and have the breadth and depth of experience help you determine whether a captive solution is right for your client.

Interested in a captive for your company, agency or group?

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