

Captives Focus on Enterprise Risk Management

A captive insurance company is basically a private insurer that is a wholly owned subsidiary of another company. Captives accept the premiums a business would have paid to a traditional insurance carrier and then cover any claims against the parent company. If the claims are less than the premium, the captive has made a profit, just as a regular insurance company would. The difference is that the company that established the captive is the one that reaps the benefits, not the insurance carrier.

One key component that contributes to profitability and the success of a captive is that businesses turn their focus on enterprise risk management (ERM). ERM is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the negative effects of risk on that organization's capital and earnings.

As claims are paid from a captive – the business owner – the focus on claims and preventing them becomes paramount. The benefits of enterprise risk management, while sometimes hard to exactly quantify, are enormous. The focus shifts to analyzing the business so as to spot potential risks.

Claims are thus prevented instead of administered. In the end, the business owner gains a better understanding of the business and its limitations, and that is priceless.

Moreover, a captive's board is typically comprised of experts who bring knowledge that covers a variety of disciplines, which contribute to the overall effectiveness of a successful ERM program. In an article recently published in *Business Insurance*, Ruth Cardiello, vice president of enterprise risk management of Stamford Health System Inc. in Stamford, Connecticut, was cited as saying that using a captive as part of an ERM program helps create an organizational culture that focuses on risk. For example, physicians and therapists working for the health care provider are conducting more home visits for patients who can't travel. "With the multidisciplinary captive board, the captive and the organization could address the related exposures before being

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confronted with losses...Five years ago, I would have heard about (the increased home visits) after an incident occurred,” Ms. Cardiello said.

With skin in the game, captives are excellent vehicles for good risk management, providing a stronger focus on risk prevention and mitigation techniques employed by businesses. At Caitlin Morgan, we specialize in providing captive solutions and can assist you in evaluating whether a captive and which type of captive would be right for a particular insured.

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

Contact



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