CaitlinMorgan
CAPTIVE SERVICES
Exceeding Expectations

A Look at Today's Captive Insurance Market

Captive insurance solutions today are part of the mainstream of corporate risk planning. Since the first captives were formed in Bermuda in the 1960s, they have been growing steadily and are no longer just an option for Fortune 1000 companies. Many small and midsize firms and groups of individuals have turned to captives to manage, mitigate and transfer their risks.

Over the years, we have seen an increasing number of onshore captives being established. There are currently about 37 captive domiciles in the United States, with Florida, North Carolina and Texas being the most recent. States are actively seeking captive businesses with at least half a dozen amending their captive insurance laws to increase their appeal to current and potential sponsors. For example, as reported by *Business Insurance* last year, states that have made major changes include Georgia, which slashed premium taxes paid by captives; Tennessee, which opened the door for captives to write Workers' Compensation risks; and Montana, which now allows public-sector entities, such as cities and counties, to form captives. In fact, just recently, the Tennessee Department of Commerce and Insurance announced that it licensed 57 captive insurers in 2015, bringing its year-end total to 126. Of those new 57 new captives, 47 were single-parent captives, four were risk retention groups, and six were protected cell captives, according to the state's insurance department. In addition, the 57 new captives included seven redomestications – captives licensed in other domiciles that that moved to Tennessee in 2015.

Of course, captives are not for everyone, and a feasibility study must be performed to determine whether setting one up makes sense. The benefits are rewarding for those that fit the profile. They include:

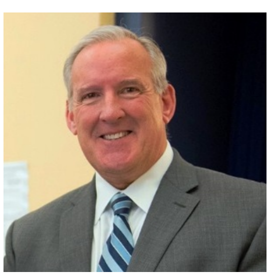
- **Reduced reliance on traditional commercial lines insurance** for the product lines written through the captive, which lowers the exposure to changes in the commercial insurance market.
- **Direct access to reinsurance markets**, which reduces markup costs from the primary insurance market.

- **Lower overhead** – captives generally have no employees, no marketing expense, no physical property and minimize necessary administrative overhead through careful outsourcing of required services to professional captive service providers.
- **Price stabilization** – insurance market fluctuations have considerably less impact when pricing is based on the insured's individual loss history rather than the loss history of a large base of insureds.
- **Coverage customization** – where coverage is unavailable or unaffordable, a captive is able to manuscript its own customized policy to cover a specific or unusual exposure.
- **Improved cashflow** – investment income from unearned premiums can be realized over the full duration of claim exposures.
- **Greater control over claims handling** – a captive establishes and controls it own claims handling policies and procedures and has full access to all claims data.
- **Potential tax advantages** – captives can provide a tax-advantaged vehicle for accumulating underwriting and investment income.
- **Ability to direct investment options** – captive reserves and surplus are invested at the direction of the captive owner (subject to regulatory liquidity guidelines) and can include not only traditional investment vehicles but also certain investments back into the parent company.

There are drawbacks as well including meeting capital commitments, potential for inadequate loss reserves, and legal and regulatory risks, among others. Caitlin Morgan specializes in offering captive insurance solutions and can provide you with expertise and services to determine if a captive is the right fit for your client.

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

Contact



Christopher L. Kramer, SVP

317.575.3999 Direct Line
216.470.3800 Cell
ckramer@cmcaptives.com